



Rwanda Fiscal Decentralization Project



Training Manual Accounting for Local Governments in Rwanda



A - Essay

Developed by Ricardo Valderrama,
ARD Financial Management Advisor

Tested and updated during TOT and ALG workshop
November 2002

Fiscal Decentralization Project

USAID Contract No: AEP-I-805-00-00016-00

This manual was financed by USAID/Rwanda Fiscal Decentralization Project under USAID Contract No: AEP-I-805-00-00016-00. It is being implemented by Associates in Rural Development, Inc., PO Box 1397 Burlington, Vermont 05402

The USAID/ARD Fiscal Decentralization Project is helping the Government of Rwanda to devolve services to local governments. It provides policy and technical assistance to insure that local governments can raise adequate resources, manage and account for their revenues, and efficiently provide local services that respond to the needs of the community.

Table of Contents

I.	Fiscal Decentralization context	2
II.	Accounting in Context of Integrated Financial Management System.....	4
II. 1.	Financial Management Cycle	4
II. 2.	Interrelationships between Financial Management Activities.....	6
II. 3.	Financial Interactions in Local Government.....	7
III.	Objectives and Qualities of Accounting	15
III. 1.	Objectives	15
III. 2.	Major Qualities	15
1)	Relevant.....	15
2)	Reliable (verifiable, representative, neutral)	16
3)	Must have Comparability (including Consistency in accounting methods).....	16
IV.	Accounting Main Concepts	17
IV. 1.	Assertions of Financial Reporting.....	17
IV. 2.	Accounting Standards	17
IV. 3.	Accounting Basis.....	17
IV. 4.	Accounting Period	18
IV. 5.	Accounts	19
IV. 6.	Financial Accounts	19
1)	Real Accounts	19
2)	Nominal (Income Statement Accounts, Temporary)	20
IV. 7.	Fund Type.....	20
IV. 8.	Programs /Sectors/	21
IV. 9.	Memorandum Accounts	21
1)	Budget Events.....	21
2)	Fixed Assets and Depreciation.....	22
IV. 10.	Charts of Accounts (including type of account)	22
V.	Accounting Equations	23
VI.	Double-Entry System Conventions	24
VI. 1.	Debits and Credits and T accounts	24
VI. 2.	Object Accounts	25
VI. 3.	Parallel Entries: Programs and Fund Type.....	26
VII.	Accounting Procedure.....	28
VII. 1.	Overview	28
VII. 2.	Interpretation of Daily Business Events.....	28
VII. 3.	Journaling to Books of Original Entry	29
VII. 4.	Vouchering.....	30
VII. 5.	Journaling Rules	31
VII. 6.	Posting to Ledgers	33
VII. 7.	General Ledger	33
VII. 8.	Use of Subsidiary Ledgers	34
VII. 9.	Correcting Entries	34
VIII.	MONTH-END PROCESSING	35
VIII. 1.	Bank Reconciliation.....	35
VIII. 2.	Unadjusted Trial Balance	36
VIII. 3.	Adjustments	37
VIII. 4.	Produce Revenues & Expenditure Reports	37
VIII. 5.	Closing.....	37
VIII. 6.	Post-Closing Trial Balance	38
VIII. 7.	Produce Statement of Financial Position.....	38
VIII. 8.	Distribute Financial Statements.....	38
IX.	Major Financial Statements.....	39
IX. 1.	Statement of Financial Position (Balance Sheet).....	40
IX. 2.	Statement of Financial Performance (Revenues and Expenditures),	41

USAID/ARD Draft Accounting Training Manual for Local Governments

1)	Expenditures by Nature, Object, Line Item.....	41
2)	Expenditures by Program (Sector).....	42
3)	By Fund Type	43
IX. 3.	Statement of Changes in Financial Position (Cash Flows).....	44
IX. 4.	Statement of Appropriations, Commitments/Encumbrances and Expenditures	45
IX. 5.	Statement of Actual and Anticipated Revenues	46
IX. 6.	Bank Reconciliation Statements (one per account).....	47
IX. 7.	Disclosures	48
IX. 8.	Monthly Financial Management Indicators.....	49
IX. 9.	Accounting Memorandum to District Council	50
X.	Internal controls	51
X. 1.	Overview of Internal Control Model	51
X. 2.	Preventive (<i>Ex Ante</i>) vs. Detective (<i>Ex Post</i>) Controls	51
X. 3.	Authorities and Approvals	51
X. 4.	Segregation of Functions	52
X. 5.	Quality Assurance - may be performed by accounting colleague but not internal auditor	52
X. 6.	Access Controls.....	52
X. 7.	Reconciliation of cash and other accounts.....	52
X. 8.	Filing of financial reports, journals, ledgers.....	52
X. 9.	Source document filings, by voucher.....	52
B.	ANNEXES.....	53
XI.	Annex 1 – Chart of Accounts	54
XII.	Annex 2 - Glossary of English and French Accounting Terms	58
XIII.	Annex 3 - Accounting Records and Books.....	62
XIV.	Annexes – Forms of Financial Reports.....	79

Foreword

This training manual was developed in May 2002 and tested during Training of Trainers workshop conducted in November 3-9, 2002 as well as during the ALG workshop November 11-23.

How to use this manual

This training manual on *Accounting for Local Governments in Rwanda*, is basically developed to be used during workshops, but can be used for self-study as well.

The material used during workshops consists of 2 parts: A - Essay (training manual) and B - Workbook (trainer's notes and participant's exercise manual).

The trainer's notes and the participant's exercise manual in this handbook are intended for use by experienced trainers in a training workshop for accountants from different Rwandan districts. We have included various types of learning activities and formats to provide trainers with considerable flexibility in adapting a workshop to the specific needs of participants. It has been our intention in developing this manual to encourage the trainers and accounting consultants to incorporate their own experiences to heighten the learning value of these training materials for workshop participants.

The trainers may decide to use the materials in the handbook in the exact order and manner presented. If they prefer, however, they may rearrange or modify the materials as needed to meet the objectives of a particular training situation.



Broderbund

I. FISCAL DECENTRALIZATION CONTEXT

Throughout the world central governments are decentralizing some political, fiscal and/or administrative responsibilities to lower level governments and to the private sector. Decentralization is particularly widespread in developing countries for a variety of reasons: the advent of multi-party political systems in Africa; the deepening of democratization in Latin America; the transition from a command to a market economy in Eastern Europe and the Former Soviet Union; the need to improve delivery of local services to large populations in the centralized countries of East Asia; the challenge of ethnic and geographic diversity in South Asia and indeed, the plain and simple reality that central governments in all too many countries have failed to provide effective public services. Whatever its reasons, decentralization can have significant repercussions for resource mobilization and allocation, and ultimately macroeconomic stability, service delivery, and equity.

Growing fiscal, political, and administrative responsibilities with clear rules for holding each tier of government accountable for its responsibilities lead naturally to an important need to increase capacity to support and manage decentralized responsibilities. Even the issue of local capacity is quite complicated. One of the appropriate ways to improve is through increased training of local administration representatives.

The efficiency of any competition engendered by decentralization will depend to a considerable extent upon the "rules of the game" which are presumably set, and enforced, by the central government or perhaps by an independent judiciary. One conclusion that can be emphasized, however, is that the key to usefully competitive governments lies in making the relevant decision-makers accountable for their decisions and that the key to effective accountability is to make relevant comparative information publicly available. The more that is known, and the more publicly it is known, the better the outcome of decentralization efforts is likely to be.

The competitive approach signals both the importance of improving knowledge—and public awareness of knowledge—in order to improve outputs and also the importance of considering in detail the institutional structure of particular decentralization arrangements.

The essential tool needed to enhance service delivery --important not only for national development but also for poverty alleviation and welfare in general-- is an adequate and up-to-date information system generated, for example, by requiring local governments to file uniform and informative budgets and financial reports. Uniform information – relevant and common accounting and reporting requirements-- is important so that comparisons across communities can be made and used. Fiscal transparency is fundamental to sound decentralization policy and indeed public policy in general. The

accounts of all governments should be comprehensive, comprehensible, and widely available. Budgets should be drawn up to display the real status of the public finances ideally including the long-run implications.

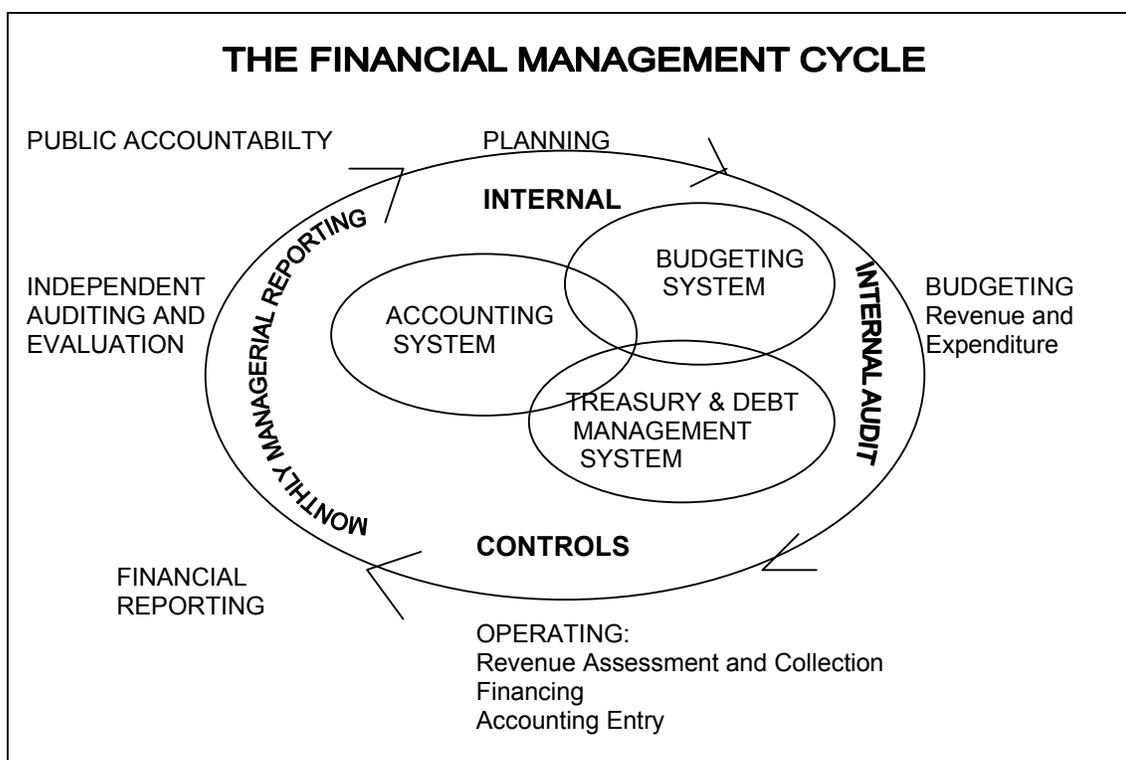
ARD project approach: The US Agency for International Development has contracted with ARD to assist the Government of Rwanda in Fiscal Decentralization. This three-year program is working to improve district accounting, treasury, and taxation procedures. It's approach is to first review and recommend improvements in procedures, test the revised procedures on selected pilots, develop the training material and then support national implementation. Wherever possible, ARD employs district staff to participate in providing the training and follow-up to enhance local training capacity, promote professional development, and build sustainable self-help capacity.

Training is by design very participatory and interactive. The training accounting program, for example, includes a full week of practice following the first week of presentation and exercise. Sustained support and follow-up is provided by ARD for up to 4 days per month following the training to allow participants to become completely comfortable with the material.



II. ACCOUNTING IN CONTEXT OF INTEGRATED FINANCIAL MANAGEMENT SYSTEM

II. 1. Financial Management Cycle



The overall financial management system can be viewed as a collection of several, integrated and closely coupled components: budgeting, accounting, treasury & debt management, audit, and internal controls. Accounting is primarily a recording and reporting function. In contrast, budgeting is primarily a planning function while treasury and debt management are primarily custodial and financial execution function. Audit (internal and external) is primarily an evaluation function and internal controls are an integral aspect of all the functions in the financial system as well as of the overall management system.

Accounting is an essential element of the overall system. Without proper accounting, a local government would not have any clear idea of how well it is performing financially, whether it is becoming more solvent or more indebted, whether it will likely have

sufficient funds to cover the next three payrolls (or perhaps just the next payroll), whether financial activities are being executed roughly according to the plans. Furthermore, without proper accounting, it becomes impossible to state whether funds entrusted to a local government have been used for the purposes intended. This document will seek to provide guidance on the establishment of a simple but robust accounting system.

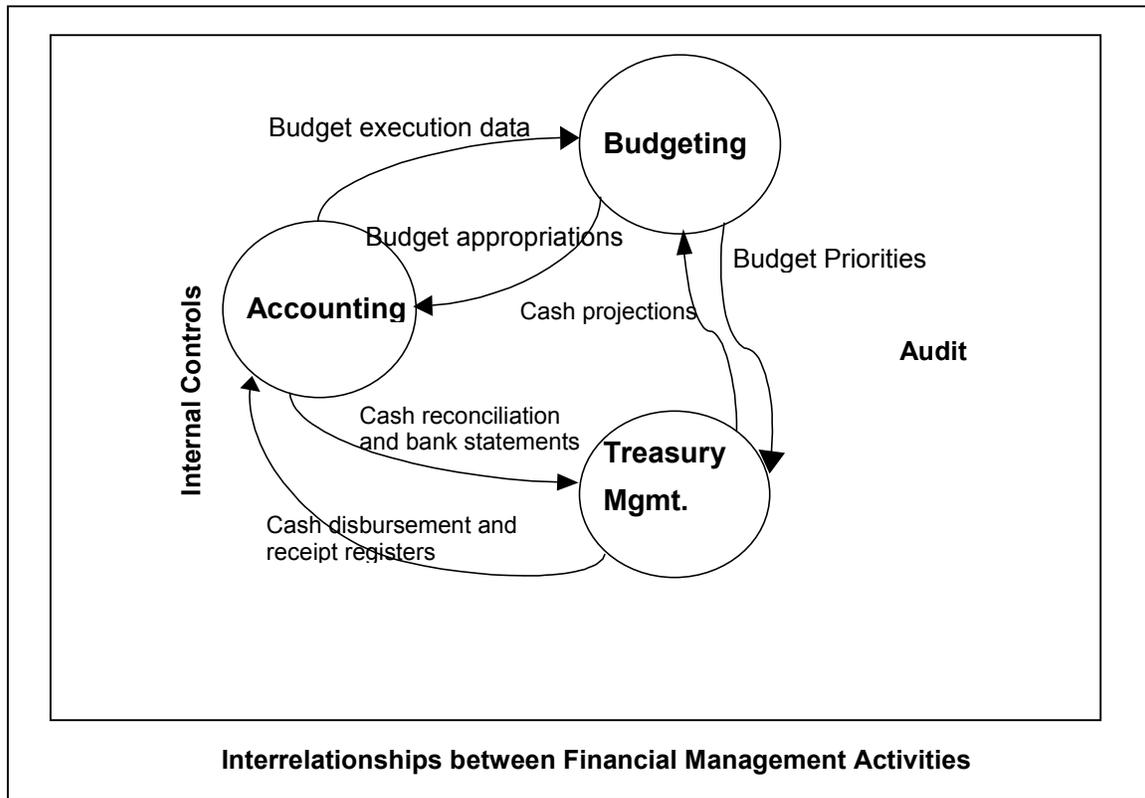
Budgeting involves planning how economic resources are to be collected and distributed within/across activities and time and committing to these plans. The budget helps to determine which contracts should be pursued by the government, taking into consideration priorities that have been defined at a community level. If/when liquidity becomes severely constrained, the budget may also provide guidance regarding which payments are to be executed first. However, for budgeting to be realistic and relevant, it must periodically receive feedback from the accounting function.

Treasury / Debt Management deals with the custody and management of assets and liabilities, such as checking accounts, petty cash, accounts payable and loans payable. The Treasury component also provides important information to the accounting component that supports its recording, reconciliation and reporting tasks.

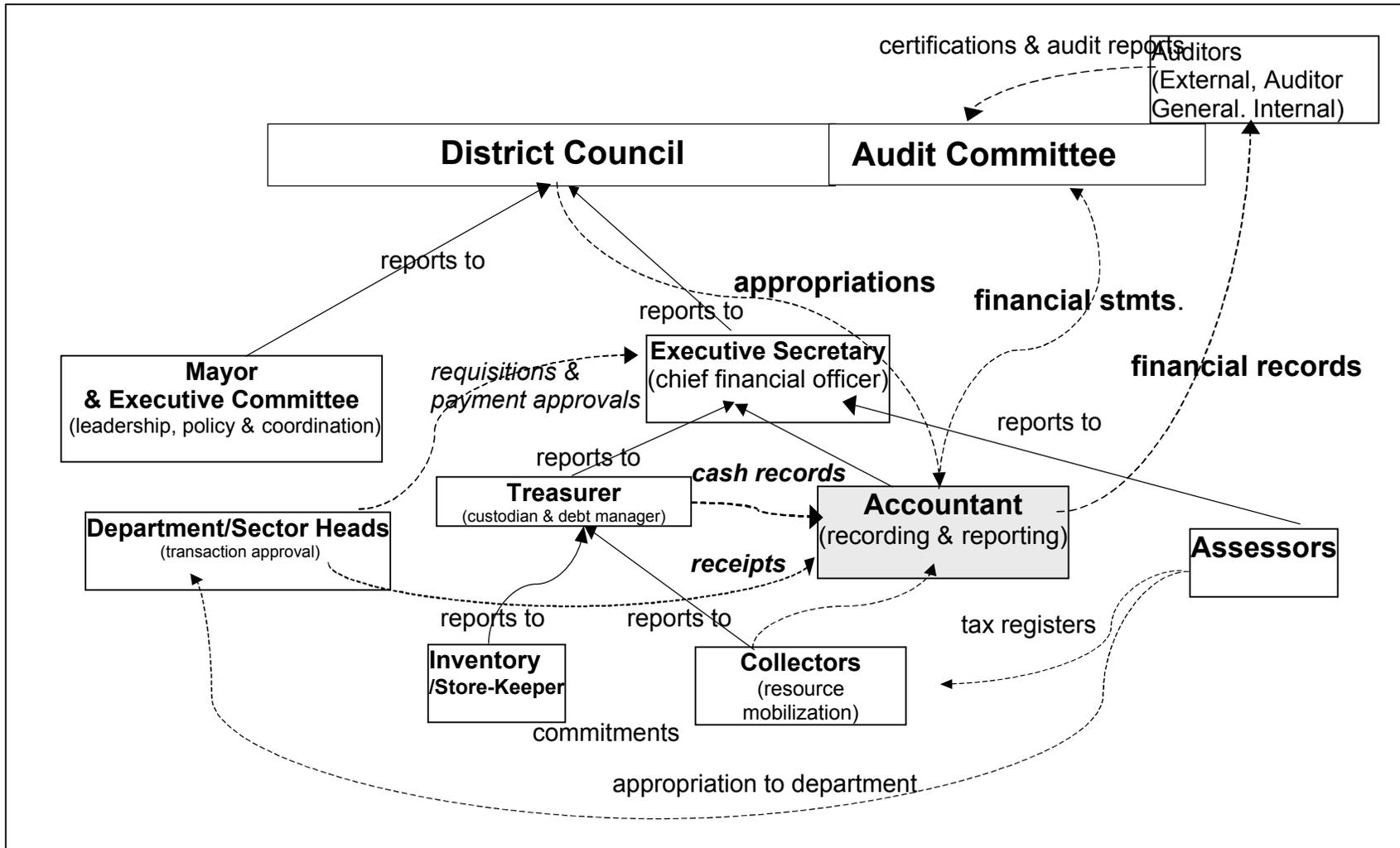
Auditing is a monitoring component. It consists of Internal Auditing, conducted by auditors reporting to management within an entity, and External Auditing, which is more independent but typically involves a more narrow scope of work focused on attestation/certification of financial statements. All of the financial management components above are subject to review by the audit functions.

Internal Controls consist of all resources, systems and tools that help ensure that the entity and its financial management functions operate as intended. They also help prevent errors, misstatements, misappropriations, and other forms of loss. Sound internal controls imply that the entity is operating efficiently and effectively.

II. 2. Interrelationships between Financial Management Activities



II. 3. Financial Interactions in Local Government



Below there is a description of the roles and responsibilities that are important in the financial management of the local government:

1. District Council

The District Council acts as an interface between the local government and the community and is responsible for the oversight of financial and budgetary management of local government. The District Council will:

- Approve budgets, based on priorities identified from the community at-large and recommendations from the Mayor, Executive Committee and Executive Secretary, and approve subsequent revisions and reallocations
- Review financial management and budget execution reports by the 6th calendar day of each month and confer with District management (the Mayor, Executive Secretary and Executive Committee) and provide input on prospective actions proposed by management
- Ensure that financial reports are made immediately available to the community (e.g., through the posting the financial reports outside local government buildings and publishing summarized reports in local newspapers). The Council must also ensure that the community has ample opportunity to provide input on key financial issues and decisions confronting the local government.
- Establish Debt Ceiling for the district government. The Council must define the maximum authorized amount of debt to be incurred by the local government during the year, either in absolute currency amount or in relation to other account/classification (e.g., debt/revenues). The Executive Secretary and Treasurer will be responsible for ensuring the government adheres to this authorization.

2. Mayor and Executive Committee

The roles of the Mayor and Executive Committee shall provide the overall leadership of the local government, setting district policies and objectives and coordinating with internal and external parties for success in each of the programs/sectors.

The Mayor and Executive Committee shall submit an annual budget request to the District Council for approval. This budget request shall be prepared by the Budget Management Team and shall take into consideration the priorities identified by the District Council, the Community-at-Large and the Mayor and Executive Committee.

They shall also monitor the execution of the budget and the financial performance/status of the local government. They may directly intervene in financial management if this is called for by special circumstances. However, in the context of day-to-day financial transaction activity, their roles will normally be limited. They will typically not be involved in transaction approvals. Mayors need not be signatories on proposed payments, particularly if a Department head has already requested a transaction and the Executive Secretary has approved the transaction. Neither of the roles on the Executive Committee should directly

overlap with that of the Executive Secretary and there is no need or benefit in Executive Committee members specifically approving each transaction.

3. Department Heads

The heads of departments / sectors within each local government are responsible for seeking appropriations for and managing budgets pertinent to their programs. They are also responsible for monitoring the execution of their budgets and ensuring that funds were employed for the purposes intended. The Executive Secretary will expect departmental approvals on most individual transactions from these department heads before signing vouchers or contracts on behalf of the local government. Department Heads must prepare requisitions for purchases requested for their respective departments. Similarly, they must approve proposed payments before these are executed.

Heads of department should, if at all possible, act as controllers (sometimes referred to as vote controllers) for their own departments. Most departments in local governments will be sufficiently small to avoid the need for departmental vote controllers. Also, and in this context, the departments ought not to be requesting and managing separate petty cash or imprest accounts but should liaise with the Executive Secretary and Treasurer for each of their cash transaction needs.

4. Executive Secretary

The Executive Secretary function will incorporate the role of the chief financial officer for the district (in addition to his other responsibilities for administration), and will be responsible for day-to-day financial operations. Directly reporting to him will be the Accountant and the Treasurer (both of which are discussed in other sections below). He should be the final signatory on vouchers, cheques and purchase orders issued by the local government – for most common transactions, he need not seek input from the Executive Committee, Mayor or District Council for execution.

The Executive Secretary shall:

- Ensure that the Accountant is provided the time and resources to produce monthly financial reports by the established deadline;
- Monitor the financial status of the local government throughout the month
- Act on financial projections produced by the Treasurer
- Approve payments based on requests from Department Heads; he is the final signatory on vouchers and cheques issued by the local government
- Lead the Budget Management Team
- Liaise with Department Heads on contracts/encumbrances, payment approvals and charges against their respective departments
- Approve and issue contracts and purchase orders
- Ensure that adequate internal controls are in place
- Assess risks and exposures of budget overruns, project cost overruns, or loss of property.
- Chair Weekly Payment Meetings

- Seek advice from Internal Auditor
- Provide all necessary support and guidance to Treasurer, Accountant and Tax Collectors.

The Executive Secretary should not be referred to as the “Accounting Officer” of the District since this may create confusion on his primary role; (the Accountant should actually have sufficient autonomy to prepare the financial reports to be submitted directly to the District Council, without modification by the Executive Secretary. Similarly, other roles (e.g., Vice Mayor for Finance, Secretary of Finance and Economic Affairs) should not overlap with that of the Executive Secretary.

5. Treasurer

The Treasurer is responsible for the custody of assets and the execution of debt management practices. In addition to ensuring that the assets are managed and employed in accordance with prescribed policies and procedures, the Treasurer is responsible for ensuring that sufficient cash is available to meet the most important needs of the local government, carry out cash projections and develop/implement a debt management / resource mobilization plan accordingly. This function absorbs and supersedes that of the Cashier. Thus, the Treasurer would:

- Set up, monitor and manage bank chequing accounts
- Identify appropriate banking service providers
- Have custody of cheques and petty cash
- Maintain registers on daily cash transactions (disbursements and receipts) executed and current cash balances
- Manage and document the use of petty cash.
- Coordinate and provide oversight of tax collector activities in the district.
- Develop and maintain cash projections for immediate (weekly), short-term (monthly) and one-year time horizons
- Develop debt management plans
- Develop resource mobilization plans with collectors and Executive Secretary
- Negotiate debt agreements with banks and creditors and prepare requests for related approvals from the District Council
- Receive cash, cheques or deposit slips from tax collectors
- Participate in Budget Management Team meetings
- Provide detailed transaction register to the accountant, at the end of each day, on disbursements and receipts effected
- Review and confirm accountant’s bank reconciliation - compare accountant’s determination of cash balances with Treasurer’s running balances
- Organizes and sets agenda for Weekly Payment Meeting - prepares list of proposed payments for discussion by participants (not to exceed one hour)
- Compare accountant’s determination of cash balances with Treasurer’s running balances.
- Identify appropriate banking service providers

If there are insufficient staff resources and too few transactions to support the hiring of a Treasurer, then the Executive Secretary (not the accountant) should take on the full treasury role as part of his job description.

6. Accountant

The accountant's role is essentially that of recording and comprehensive reporting on the financial status and activities of the local government. He shall distribute the following reports to the District Council by the 6th working day of each month:

- Accountant's Memorandum to District Council
- Statement of Financial Position (balance sheet);
- Statement of Financial Performance (revenues and expenditures), by Nature/Object;
- Statement of Financial Performance (revenues and expenditures), by Program;
- Statement of Changes in Financial Position (cash flows)
- Statement of Appropriations, Expenditures and Encumbrances
- Statement of Actual vs. Anticipated Revenues
- Bank Reconciliation Statements, for each bank account
- Financial Management Indicators

On a daily basis, the accountant will:

- perform double-entry bookkeeping,
- maintain journals
- maintain ledgers and account balances,
- maintain appropriately referenced and filed source documents (e.g., vouchers, invoices, requisitions, account statements) that support the figures reported on the financial statements
- liaise with department heads on charges accrued to their respective programs
- participate in Weekly Payment Meetings with the Executive Secretary, Treasurer and optional participants.

Although the Accountant would report to the Executive Secretary, he should be given significant autonomy in his reporting decisions. However, he/she should not have custody of significant district assets (e.g., cash, bank cheques, inventory keys), nor should the accountant be asked to sign cheques or provide approvals for payment. He will provide information to the Executive Secretary and Treasurer (payment meeting participants) on budget and commitment (encumbrance)/purchase order balances and goods received.

7. Audit Committee

The Audit Committee will be a subset of members of the District Committee. The Audit Committee will be responsible for:

- requesting and reviewing the reports of internal and external auditors,

- monitoring the state of internal controls in the local government and
- ensuring that there is transparency and accountability to the local community.
- ensuring that adequate resources are directed towards internal controls and addressing the recommendations of the auditors.

To avoid redundancy of working groups and committees at the level of the District Council, the Audit Committee would assume the roles proposed for the Economic and Technical Commission in its analysis of audit reports and that of the proposed Board of Survey in its year-end balance verification work.

8. Internal Auditor

The Internal Auditor will:

- Provide substantive advice to the executive committee and district council on the design and operation of internal controls in local governments.
- Provide recommendations on prospective policies and procedures considered by the local government (however the district management must assume full responsibility for its decisions).
- Verify that financial operations are effective.
- Provide proactive input on enhancing the overall efficiency and effectiveness of local government
- Report to and be accountable to the audit committee of each district council;
- Coordinate and schedule his audit activities with the corresponding Executive Secretary;
- Work for multiple districts simultaneously (a good starting ratio would be 1 auditor per 5 districts), to enhance his objectivity, professional growth and authority and to control costs. For administrative purposes, he may be pooled with other internal auditors at the Prefecture level but be responsible to districts.

The Internal Auditor should not, however, be involved in the day-to-day financial activities of the district/local governments. He must not approve transactions or accounting reports, nor need he double-check every single transaction processed by the local government. Such close involvement of the internal auditor in daily financial activities dilutes the accountability of the financial staff (accountant, executive secretary, etc.) and significantly undermines the internal auditor's independence and objectivity. In this context, he should not initial pre-payment audit certifications for each contract or payment transaction, nor should he be alerted by financial staff regarding minute exceptions, such as dishonored cheques or missing accounting stationary.

9. External Auditor & Office of Auditor General

External auditors should produce independent attestations (letters of certification/opinion) on the reliability of the financial statements of each local government. Such attestations should be performed by the Office of the Auditor General at least annually for each district and should be in accordance. These

written opinions should then be published and made available to the general public to promote transparency and confidence in local government (See "District Councils," above). The external auditors may be civil servants or can be occasionally contracted through private firms but still managed by the Auditor General's office. Although each individual external auditor would be responsible to the audit committee in each district, his line responsibility will be to his own office.

The external audits should be performed efficiently. They need not include a review of every single transaction but can select and evaluate accounts based on their risk and materiality. They can also include analytical procedures to speed up his evaluations and take into consideration assessments of executive committee management/staff to support audit procedure decisions. If heavily short-staffed, the Auditor General may request assistance from external auditors in the private sector or from Internal Auditors to support their work activities.



III. OBJECTIVES AND QUALITIES OF ACCOUNTING

III. 1. Objectives

Accounting should support the achievement of several objectives for the local government:

- Provide information that is useful to members of the District Council and other stakeholders (Province, MINECOFIN, MINALOC) in their financial management decisions
- Provide information about the economic resources of the district
- Provide information that is useful in predicting future (cash flows) and their likelihood
- Report revenues and expenditures accurately
- Report on a timely basis

III. 2. Major Qualities

In this context, for accounting to be effective, it should have the following characteristics:

1) Relevant

a) Timely

If reports are not distributed in a timely manner, then they have little value. Reports distributed three weeks after the close of the month provide managers and council members with no opportunity to take corrective action in the following month.

Therefore, Rwandan local governments must complete and submit accounting reports to the District Council, the Prefecture and the Central Government by the 6th working day of the month following the accounting period.

b) Have Predictive and Feedback Value (confirms or corrects earlier expectations)

The accounting information produced should help recipients make predictions about the outcomes of past, present and future events. In so doing it should also confirm or correct prior expectations.

2) Reliable (verifiable, representative, neutral)

The accounting is reliable only to the extent that it is free of error and bias and is representative of actual events. It would be considered verifiable if independent/different measurers using the same accounting standards and conventions arrive at the same conclusions. It would be representative if the events described actually happened. It would be neutral if it were objective, truthful and did not favor special interests (e.g., local government management).

3) Must have Comparability (including Consistency in accounting methods)

Comparability is achieved if accounting information produced by local governments is measured and reported in a similar manner. In this manner, it can be compared and contrasted. Similarly, it helps the prefectures and central governments to aggregate data and formulate judgments on a broader range of local governments. Consistency means that the local government employs the same accounting treatment for similar events, from one accounting period to another.



IV. ACCOUNTING MAIN CONCEPTS

IV. 1. Assertions of Financial Reporting

The assertions are not the accounting principles themselves but they are implicit assertions made by the accountant when presenting the financial reports. They are elements such as:

- **Existence:** all assets existed as of a balance sheet date are real and actually exist.
- **Completeness:** that all transactions that occurred within an accounting period are recorded and reflected in the statements.
- **Valuation:** all transactions and account balances were assigned correct values.
- **Rights and Obligations:** that the entity has rights over an asset on the books and indeed has obligations equaling the liabilities detailed.
- **Presentation and Disclosures** are comprehensive and appropriate.

IV. 2. Accounting Standards

Accounting Standards are bodies of rules that define how business events are interpreted, recorded and reflected in financial statements. Dozens of accounting standards are in existence throughout the world and although most share common concepts, their differing rules can cause large differences in financial reporting. In Rwandan local governments, we shall observe what is referred to as **International Accounting Standards** or **IAS**, governed by the International Accounting Standards Committee (IASC). More specifically, our accounting will be guided by the **International Federation of Accountants (IFAC) - International Public Sector Accounting Standard (IPSAS)**. The IFAC's Public Sector Committee developed the IPSAS in the context of IAS but with a structure and terminology that is oriented towards public sector accounting.

IV. 3. Accounting Basis

The accounting basis determines the timing of recognition of revenues and expenditures. There are different types of bases in existence, e.g.:

- Cash Basis

- Modified Cash Basis
- Modified Accrual Basis
- Accrual Basis

The **cash basis** system recognizes the revenues when money is received and expenditures when money is paid. Cash basis accounting is used primarily because it can provide certain income tax benefits and because it is simple. Cash basis financial statements, however, may distort the portrayal of financial position and operating results of a business.

The **modified cash basis** system recognizes the expenditures when the money is paid and the revenues when they are gained not depending on when money is received. Therefore the Taxes Receivable will be included in the balance sheet.

In **accrual basis** accounting the revenues are recognized when they are gained and the expenditures when they are incurred and determining the net income does not depend on when the cash is actually received or spent. The expenses incurred are matched with related revenues gained to determine a meaningful net income figure for a particular period. Under this basis the physical assets are included in the assets. This system is usually used by the private sector.

Local governments in Rwanda shall use the **Modified Accrual Basis**, as described by IFAC. Under this basis of accounting, expenditures are recognized as soon as they are incurred while revenues are recognized only when they are actually received. Also under the modified accrual basis, only financial assets are recognized as assets, i.e., those assets that may be considered available in the immediate future for financing payments of existing liabilities and operations (e.g., cash). Thus, physical assets such as land, property and equipment are not included in assets; rather, their purchases are treated as expenditures. Similarly, taxes receivable are not to be included on the balance sheet, however accounts receivable from vendors to be paid in cash in the immediate future can be treated as an asset.

In contrast, all liabilities are recognized immediately when incurred and maintained on the ledgers and balance sheet. These would include such items as accounts payable, accrued liabilities (e.g., accrued salaries and wages) and other debts.

The modified accrual basis is therefore conservative in that it reduces the likelihood of an overstatement of either revenues or assets in the main financial statements while still ensuring that obligations are reflected as they are incurred.

Fixed assets and inventory/stores will be separately tracked in memorandum accounts so that they can continue to be managed.

IV. 4. Accounting Period

Most of the statements are based on activities that fall within a given time period. For interim financial statements, the accounting period will be that of one calendar month. Annual financial statements will summarize activities throughout the year.

IV. 5. Accounts

An account is a unit of classification to show the effect of all transactions and events on a specific type of asset, liability, revenue, expenditure, accumulated surplus, or budget item. At least one account is maintained for each item that appears on any of the financial statements. Examples of accounts are compensation/salary expenditures; cash in bank account 1, and accounts payable.

Accounts can be broken down into sub-accounts. Although some systems use a numerical coding structure to reflect the hierarchy in accounts, for more explicitness and simplicity, we shall use the colon (:) to reflect account: sub-account relationships. For example a sub-account of cash might be denoted as follows: Cash: Bank: Acct.1, which would represent a particular bank account 1 maintained at the bank under the overall heading cash. As another example, there might also be another sub-account for petty cash, e.g., Cash: Petty Cash.

IV. 6. Financial Accounts

1) Real Accounts

Real accounts (as opposed to Nominal accounts) are permanent in nature. They are the accounts that predominate on balance sheets (statements of financial position). Thus, their balances are simply maintained from period to period, with the first period-end balance of a given real account automatically becoming the following period's beginning balance for the same account. The main categories of real accounts follow:

a) Assets

Assets are economic resources obtained or controlled by the local government that will provide probably future benefits. As described in Accounting Basis, above, assets will include cash, accounts receivable from vendors (not taxpayers or higher government), and inventory of items for resale. For reporting purposes, assets will **not** include fixed or physical assets, e.g., property or equipment; such assets can be tracked separately (and off the balance sheet) in memorandum accounts.

b) Liabilities

Liabilities represent amounts owed, i.e., debts and obligations to provide economic benefits to some other entity in future as a result of past transactions. Examples include:

- accounts payable (e.g., debts to suppliers, employees or contractors)
- notes payable, loans payable (to banks)
- unearned revenues (taxes collected in this period that correspond to next period)
- other long-term debt (mortgage)

As mentioned in Accounting Basis, above, we shall recognize liabilities immediately as they are incurred, i.e., when goods are delivered in

accordance with a contract/purchase order or when services are rendered.

c) Accumulated Surplus (Net Worth):

The Accumulated Surplus, also referred to as Net Worth, of the local government represents an estimated net book value of the entity. It is derived by subtracting all liabilities from the assets held by the entity.

2) Nominal (Income Statement Accounts, Temporary)

Nominal accounts are temporary in nature. Their balances accumulate and are "closed out" to zero and transferred to the Accumulated Surplus section of the balance sheet at the end of each accounting period.

a) Revenues

Revenues are increases in assets and/or decrease in liabilities due to collections or delivery of service. Increases in revenues enable the local government to better meet its current obligations or to establish reserves for future dates.

Revenues include taxes collected locally, fees collected by the local government for services provided (e.g., licensing, permits), transfers received by the Prefecture or the Central Government.

b) Expenditures

Expenditures represent costs incurred by the local government in the present period, whether paid or unpaid.

*Note the subtle distinction between **expenditures** and **expenses**, which are commonly reported upon in private sector proprietary accounting. Particularly in full accrual accounting, expenses would include such items as depreciation for physical assets (e.g., equipment) currently on the balance sheet. Under the modified accrual basis physical assets will not be kept on the balance sheet; they will be treated as expenditures upon purchase; thus, depreciation will not be applicable.*

Expenditures can be classified by nature (also referred to as economic classification, object or line item), by fund or by program (sector).

IV. 7. Fund Type

Accounting of transactions will need to be performed not only in standard proprietary accounts but also by Fund Type. Local governments in Rwanda will need to classify funds that they receive in two major groups:

- *Recurrent Funds* - used in the ordinary course of local government business, for such things as salaries, supplies, etc.
- *Development Funds* - used for capital and infrastructure, such as equipment and roads.

- *Special Funds* – used for activities with well defined purpose.

Thus, accounting shall be maintained for each of the funds and reporting performed on a monthly basis.

IV. 8. Programs /Sectors/

In addition to tracking expenditures by object/line item (e.g., salaries, fuel, office supplies), it will be important for local governments to relate the expenditures by their government programs, such as health services, public works, etc. This will provide the ability to draw comparisons of the expenditures (budget execution) to the local government's budget and highlight significant discrepancies and corrective actions, if necessary.

IV. 9. Memorandum Accounts

Memorandum (memo) accounts are accounts that do not appear on the main financial statements (balance sheet, income statement, statement of cash flows). They Examples include budget appropriation information and commitments/encumbrances (potential liabilities, such as orders for goods that have not been delivered). Since our accounting implementation shall be on a modified accrual basis, memo accounts will also include fixed assets.

1) Budget Events

a) Appropriations (of Budgeted Revenues/Expenses)

Periodically, typically at least once per year, the District Council will appropriate funds to the budget, to be spent throughout the remainder of the year. The budget allocations will be likely be broken out by government program/sector.

To monitor the execution of the budget, then, it becomes important to begin tracking the budget as and when decisions are made at the legislative level and to keep a running fund balance.

b) Encumbrances / Commitments

An encumbrance (also referred to as commitment throughout this document), is an allocation against the budget for a prospective liability, before the liability is incurred or precisely determined. A typical example would be an order for supplies or a contract for a particular scope of work. Encumbrances do not always mature into liabilities; sometimes work is not performed or goods are not delivered. Nor do encumbrances have to be extremely accurate; they are effectively estimated prospective liabilities if services are rendered or goods received.

Tracking of encumbrances/commitments is important to prevent a budget overrun.

2) Fixed Assets and Depreciation

a) Fixed Assets

Fixed assets represent equipment, buildings, and infrastructure. The value of the fixed assets typically remains unchanged from month to month within the same year.

b) Depreciation

Depreciation is a method for adjusting the valuation of the fixed assets by an estimate of its economic deterioration to date. The depreciation is derived from predetermined percentages of the original value in accordance with the selected amortization approach (straight-line, accelerated, etc.)

IV. 10. Charts of Accounts (including type of account)

A chart of accounts guides the classification of all business events and transactions in a structured manner, consistent with the accounting conventions used by the local government. (See in the annexes)



V. ACCOUNTING EQUATIONS

There is a relationship between assets, liabilities and accumulated surplus accounts groups, that is important and that an accountant should be aware of. This relationship is shown through the accounting equations that should be observed in order to assure that all transactions are recorded correctly.

The first equation refers to the accounting balances. At the beginning of the accounting period there is always a starting balance and the end of this period there is an ending balance. To calculate the ending balance the sum of all transactions (all journal entries of the accounting period) is added to the starting balance at the period.

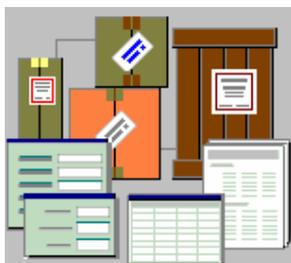
Starting Balance + Sum of all Journal Entries ----- = Ending Balance (end of period)

The second equation shows that it is a rule that the total of assets always equals the total of liabilities and accumulated surplus in the balance sheet. This equation is represented as follows:

$Assets = Liabilities + Accumulated Surplus$
--

The third equation shows the link between the balance sheet and the revenues/ expenditures accounts and allows calculating the accumulated surplus of a certain period. The accumulated surplus of the courante period equals the sum of the accumulated surplus of the prior period and the surplus or deficit of the current period.

Accumulated Surplus (Current Period): = Accumulated Surplus (Prior Period) + Surplus (Deficit) of Current Period
--

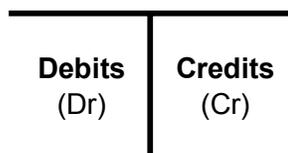


VI. DOUBLE-ENTRY SYSTEM CONVENTIONS

VI. 1. Debits and Credits and T accounts

Every transaction will be recorded in at least two (usually four accounting entries). These entries will consist of debits and credits that will balance each other precisely.

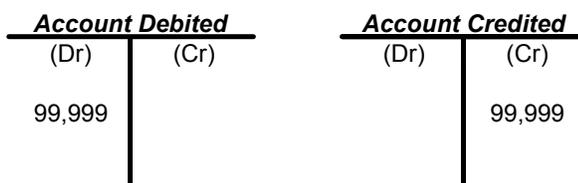
- **Debits** are defined as entries that are posted to the left side of an account
- **Credits** are those entries posted to the right side of an account.



All entries for a particular transaction will be posted using the same reference (**voucher**) number. In most cases, the debits and credits for a given transaction are posted to different accounts. Throughout this document, Debits will be denoted in shorthand form as **Dr.**, while Credits will be denoted as **Cr.** Sometimes, a given transaction's entries might be summarized as follows:

<i>Account to be Debited</i>	99,999.99
<i>Account to be Credited</i>	99,999.99

The entries of the same transactions can be presented in the T-account as follows:



However, in our implementation, additional information will need to be recorded in the journals along with the natural entries, including the voucher number, comment information that might be pertinent, and oftentimes a second set of entries dealing with program/funds.

It is important to remember that under the double-entry system conventions the debits and credits balance each other in the following way:

- Sum of all debits in a transaction must equal the sum of all credits
- Sum of all debit balances at the end of the month must equal the sum of all credits

VI. 2. Object Accounts

The impact on an account (whether it increases or decreases) from a debit or credit is determined by the type of account. The rules for debiting and crediting are derived from the accounting equation: Assets = Liabilities + Net Worth (Accumulated Surplus)

$$\text{Assets} = \text{Liabilities} + \text{Net Worth}$$

Assets	Liabilities
	Accumulated Surplus (Net Worth)

Assets: A debit to an Asset account will always increase the balance of the account; conversely, a credit posted to an asset account will always decrease the balance of the account.

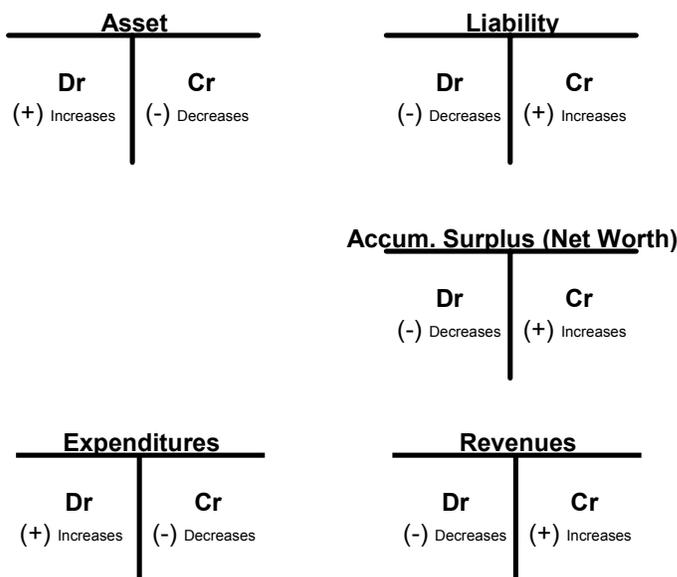
Liabilities: A debit to a Liability account will always decrease the balance of the account; conversely, a credit posted to an asset account will always increase the balance of the account. *Note that these are the opposite effects that debits and credits have on asset accounts.*

Accumulated Surplus (Net Worth): Similar to Liability accounts, a debit to a Net Worth (Accumulated Surplus) account will always decrease the balance of the account; conversely, a credit posted to an asset account will always increase the balance of the account.

Revenues: Revenues eventually (after closing) increase Accumulated Surplus. Therefore, a credit is used to increase revenues while debits are employed to decrease them. *(In practice, debits to revenues are usually corrections to credits posted earlier).*

Expenditures: Expenditures eventually (after closing) decrease Accumulated Surplus. Therefore, a debit is used to increase expenditures while credits are employed to decrease them. *(In practice, credits to expenditures are usually refunds or corrections to debits posted earlier).*

These relationships are described graphically below:

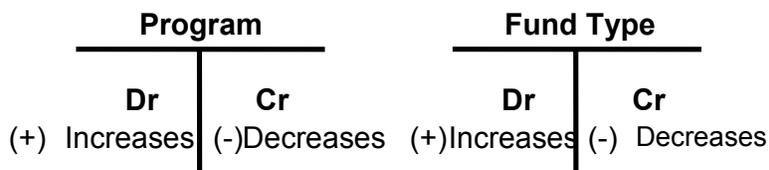


VI. 3. Parallel Entries: Programs and Fund Type

For most business transactions, there will be two sets of two entries, each. For all transactions involving revenues or expenditures, the first set of entries will be to natural accounts, i.e., accounts with economic classifications by object or nature, such as Salary Expenditure, Fuel Expenditure, Cash, etc. The second set of entries will be to Program (Expenditure or Revenue) and Fund Type accounts, respectively. If the second set of entries is not recorded on an ongoing basis, it will be impossible to produce reporting by Program or Fund Type.

The conventions we shall employ will be as follows:

Expenditures: As with the object/natural account classification, increases in expenditures shall be debited (in parallel with the natural accounting) to a Program Expenditure account (e.g., "Health and Gender," Agriculture and Environment"). Conversely, offsetting entries would be credited to a Fund account ("Recurrent" or "Development"), depending on the Fund Type that was employed.



Revenues: When funds are set up or replenished, (in parallel with the natural accounting) a debit would be posted to the Fund Type account ("Recurrent," "Development," etc.) and an offsetting entry would be posted to the "Unclassified Revenues" account.

Fund Type		Program	
Dr	Cr	Dr	Cr
(+) Increases	(-) Decreases	(-) Decreases	(+) Increases

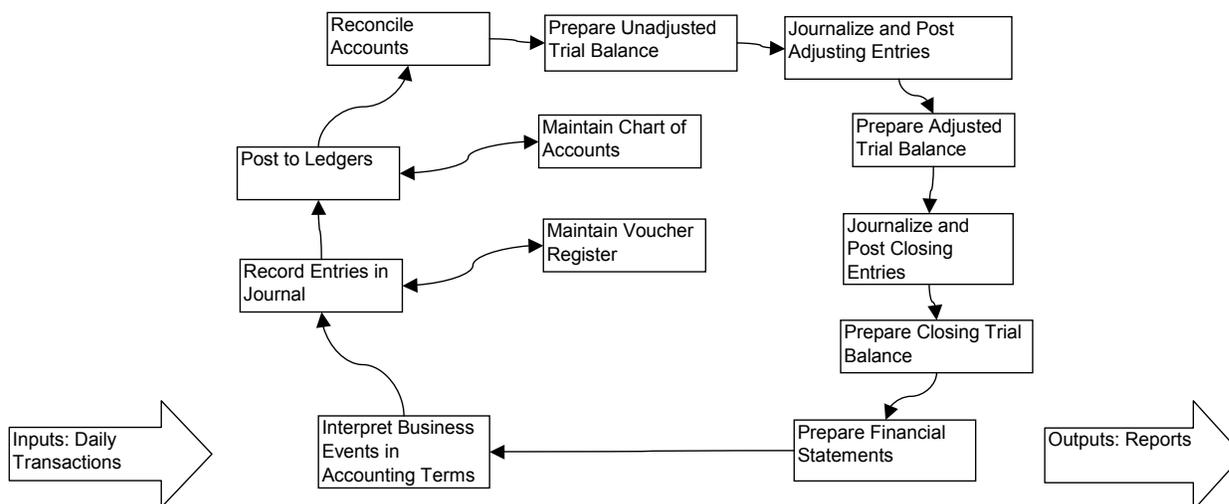
In cases that do not involve either expenditures or revenues (e.g., settling an accounts payable by paying the bill), there would be no parallel set of entries. Similarly, if there is a transfer of funds from one program/sector to another, this can be handled without any accounting in the natural accounts; the accountant would simply debit and credit only the corresponding program/sector accounts.



VII. ACCOUNTING PROCEDURE

The accounting procedure can be described as follows:

VII. 1. Overview



Overview of the Accounting Cycle

VII. 2. Interpretation of Daily Business Events

(Transaction/Business Event Rules in accordance with, and subset of, modified accrual)

Transaction rules are reflections of the accounting standards and charts of accounts, which, in turn, determine how business events are recorded and reflected. Transaction rules are simply tables of the most common types of transactions mapped against the resulting accounting entries.

credit sales slips. These documents provide evidence supporting the validity of the transactions and related account balances; thus, they must be filed appropriately, by voucher number (one per transaction).

After recording the journal entries, the same entries will be posted to the ledgers.

VII. 4. Vouchering

As and when the accounting is recorded to the journals, a unique posting reference (voucher) number should be recorded along with all entries pertaining to the same transaction. This voucher number should also be recorded on the supporting (source) documents and the source document should be filed in a secure location, by voucher number.

VII. 5. Journaling Rules

Following is a representative sample of business events and appropriate accounting/journaling treatment. This should provide guidance and instruction for the accountants operating at the district level.

Business Event	Memorandum Entries		Financial (Proprietary) Entries			
			Object/Natural Entries		Program/Fund Entries	
1. At beginning of year, Council estimates revenues at FRW 400,000 and appropriates FRW 350,000 to budget, including 80,000 to Health & Gender programs, 20,000 to Services & Econ. Infrastructure, 100,000 to Socio-Cultural, 50,000 to Agric. & Envir., 70,000 to Admin. & Political Affairs, and 30,000 to Planning & Finance	Dr Estimated Revenue	400,000.00	(none)		(none)	
	Cr Approp: Admin. / Political	70,000.00				
	Cr Approp: Services/Econ.Infr	20,000.00				
	Cr Approp: Agriculture/Envir.	50,000.00				
	Cr Approp:Health & Gender	80,000.00				
	Cr Approp: Socio-Cultural	100,000.00				
	Cr Approp: Planning & Finance	30,000.00				
	Cr Fund Balance	50,000.00				
2. Council reallocates FRW 15,000 from the Administration budget to Health/Gender	Dr Approp: Admin	15,000.00	(none)		(none)	
	Cr Approp: Health/Gender	15,000.00				
3. District Council unilaterally reduces Services & Econ. Infra.e budget by FRW 10,000	Dr Approp: Services	10,000.00	(none)		(none)	
	Cr Fund Balance	10,000.00				
4. District receives a first FRW 150,000 cash transfer from Province, to be applied to recurrent fund - 50,000 to Health/Gender, 50,000 to Socio-cultural, 20,000 to Administration, 30,000 to Agriculture	(none)		Dr Assets: Cash: Bank	150,000.00	Dr Fund: Recurrent	150,000.00
			Cr Revs: InterGov: Provinc	150,000.00	Cr Prg:Health/Gender	50,000.00
					Cr Prg:Socio-cultural	50,000.00
					Cr Prg:Administration	20,000.00
					Cr Prg: Agriculture	30,000.00
5. District orders on credit (but not yet received) FRW 9,000 in supplies including 5,000 in books for schools and 4,000 in paper products for administration	Dr Commitments: Socio-Cultural	5,000.00	(none)		(none)	
	Dr Commitments: Admin	4,000.00				
	Cr Reserve for Commitments	9,000.00				
6. District receives the office supplies that were ordered for FRW 9,000 (with actual invoice of FRW 8,500) and distributes immediately	Dr Reserve for Commitment	9,000.00	Dr Exp: Supplies: Books	5,000.00	Dr Prg: Socio-Cultural	5,000.00
	Cr Commitments: Socio-Cultural	5,000.00	Dr Exp: Supplies: Misc	3,500.00	Dr Prg: Admin	3,500.00
	Cr Commitments: Admin	4,000.00	Cr Liab: Accounts Payable	8,500.00	Cr Fund: Recurrent	8,500.00
7. The District pays (settles) the FRW 8,500 bill with the supplier	(none)		Dr Liab: Accts. Payable	8,500.00	(none)	
			Cr Assets: Cash: Bank: Ac	8,500.00		
8. District pre-pays FRW 8,000 in maintenance of public works with a bank cheque	Dr Commit:Services & Ec.Infra	8,000.00	Dr Assets: Loans receivabl	8,000.00		
	Cr Reserve for Commitments	8,000.00	Cr Assets:Cash: Bank: Acc	8,000.00		
9. Maintenance work completed. District receives from contractor a partial reimbursement of FRW 700 for funds not spent on maintenance	Dr Reserve for Commitments	8,000.00	Dr Exp: Maintenance	7,300.00	Cr Prg: Services & Ec.Infra	7,300.00
	Cr Commit:Services & Ec.Infra	8,000.00	Dr Asset:Cash	700.00	Dr Fund: Recurrent	7,300.00
			Cr Assets: Loans receivabl	8,000.00		
10. District signs a contract for FRW 22,500 in new road pavement work	Dr Commit: Services & Ec.Infra	22,500.00	(none)		(none)	
	Cr Reserve for Commitments	22,500.00				
11. Contractor completes the road work on credit	Dr Reserve for Commitment	22,500.00	Dr Exp: Construction	22,500.00	Dr Prg: Services & Ec.Infra	22,500.00
	Cr Commit: Services & Ec.Infra	22,500.00	Cr Liab: Accts. Payable	22,500.00	Cr Fund: Development	22,500.00

Business Event	Memorandum Entries		Financial (Proprietary) Entries			
			Object/Natural Entries		Program/Fund Entries	
12. The District pays FRW 67,500 in salaries for its employees (not previously recorded) charges sectors based on salaries of staff assigned to them	(none)		Dr Exp: Compensation 67,500.00 Cr Assets:Cash 67,500.00		Dr Prg: Health 27,000.00 Dr Prg: Socio-Cultural 16,000.00 Dr Prg: Agric/Env. 12,000.00 Dr Prg: Admin. 12,500.00 Cr Fund: Recurrent 67,500.00	
13. The District receives a loan from the bank of FRW 2 million	(none)		Dr Cash: Bank: Acct 1 2,000,000.00 Cr Liab: Notes Payable 2,000,000.00		(none)	
14. The District pays the bank FRW 100,000 in principal and FRW 10,000 in interest	(none)		Dr Liab: Notes Payable 100,000.00 Dr Exp: Bank Fees: Interest 10,000.00 Cr Cash: Bank: Acct 1 110,000.00		Dr Prg: Admin. 10,000.00 Cr Fund: Recurrent 10,000.00	
15. The Bank where the District maintains chequing account (Acct. 1) directly charges the account a FRW 900 service fee	(none)		Dr Exp: Bank Fees: Service 900.00 Cr Cash: Bank: Acct 1 900.00		Dr Prg: Admin 900.00 Cr Fund: Recurrent 900.00	
16. The District purchases FRW 5,000 (at FRW 50/unit) in contraceptive products for subsidized resale.	(none)		Dr Assets:Inventory 5,000.00 Cr Assets:Cash:Bank:Acct 1 5,000.00		(none)	
17. The District sells half of the contraceptives at FRW 25/unit	(none)		Dr Assets:Cash:Petty Cash 1,250.00 Cr Revs: Sales 1,250.00 Dr Exp: Cost of Goods Sold 2,500.00 Cr Assets: Inventory 2,500.00		Dr Prg: Health 1,250.00 Cr Fund: Special 1,250.00	
18. Property tax collections of 22,000 are picked up and deposited directly into the Bank; 13,000 corresponds to the current year and 9,000 to the following year.	(none)		Dr Assets:Cash 22,000.00 Cr Revs: Tax: Property 13,000.00 Cr Liab: Unearned Revenue 9,000.00		Dr Fund: Recurrent 13,000.00 Cr Prg: Unallocated Income 13,000.00	
19. Payment of FRW 18,000 made for office rent	(none)		Dr Exp: Rent 18,000.00 Cr Assets: Cash: Bank: Acct 1 18,000.00		Dr Prg: Admin 18,000.00 Cr Fund: Recurrent 18,000.00	
20. Purchase of property & building for FRW 1.8 million via cheque	Dr Fixed Asset: Property 1,800,000.00 Cr Contra-Fixed Asset 1,800,000.00		Dr Exp: Property 1,800,000.00 Cr Assets:Cash: Bank: Acct 1 1,800,000.00		Dr Prg: Admin 1,800,000.00 Cr Fund: Development 1,800,000.00	
21. Purchase of automobile for FRW 450,000 via cheque	Dr Fixed Asset: Equipment 450,000.00 Cr Contra-Fixed Asset 450,000.00		Dr Exp:Equipment 450,000.00 Cr Assets:Cash: Bank: Acct 1 450,000.00		Dr Prg: Admin 450,000.00 Cr Fund: Development 450,000.00	
22. Depreciation of automobile (20%) after one year	Dr Depreciation 90,000.00 Cr Fixed Asset: Equipment 90,000.00		(none)		(none)	
23. Sale (liquidation) of automobile after one year for FRW 380,000	Dr Contra-Fixed Asset 450,000.00 Cr Fixed Asset: Equipment 360,000.00 Cr Depreciation 90,000.00		Dr Assets:Cash: Bank: Acct 1 380,000.00 Cr Revs: Misc: Gain on Sale 380,000.00		Dr Fund: Development 380,000.00 Cr Prg: Admin 380,000.00	
24. Donor agency wires FRW 51,000 to the district government as a contribution to infrastructure efforts	(none)		Dr Assets:Cash: Bank: Acct 1 51,000.00 Cr Revs: Donors 51,000.00		Dr Fund: Development 51,000.00 Cr Prg: Unallocated Income 51,000.00	

VII. 6. Posting to Ledgers

The journal entries should be posted to the corresponding ledgers on a daily basis; otherwise, a backlog of accounting will accumulate and the financial reports may take too long to produce.

Each account is updated separately with entries from the journal that pertain to it. Natural accounts are first posted; then, entries are posted to the program and fund accounts if revenues or expenditures are involved. Sample entries related to the example in *Journaling* (above) are:

GOVERNMENT OF _____

MEMO LEDGER - Commitments: Socio-Cultural Development

Date	Voucher Ref.	Journal Ref. Book/Page/No.	Description	Posting (FRW)		Balance (FRW)	
				Debit Increases	Credit Decreases	Debit	Credit
			Starting Balance on 01 January 2002			0,00	
07-janv-02	G109348	5 / 14	Order Books from Minerva for Schools (Mathematics books)	9 000,00		9 000,00	
10-janv-02	G109349	5 / 14	Invoice from Minerva received (Mathematics books)		9 000,00	0,00	

GOVERNMENT OF _____

LEDGER - Exp.: Supplies: Books

Date	Voucher Ref.	Journal Ref. Book/Page/No.	Description	Posting		Balance	
				Debit Charges	Credit	Debit	Credit
			Starting Balance on 01 January 2002			0.00	
7-Jan-02	G109349	5 / 14	Purchase from Minerva Supply Store (Mathematics books)	8,500.00		8,500.00	

GOVERNMENT OF _____

LEDGER - Asset: Cash: Bank: Acct. 1

Date	Voucher Ref.	Journal Ref. Book/Page/No.	Description	Posting (FRW)		Balance (FRW)	
				Debit (Increase)	Credit (Decrease)	Debit	Credit
			Starting Balance on 01 January 2002			50,300.50	
10-Jan-02	G109350	5 / 14	Payment to Minerva Supply Store (for Books/Supplies)		8,500.00	41,800.50	

VII. 7. General Ledger

The general ledger is the book of top-level accounts. It forms the basis for all numbers reflected in the financial reports.

VIII. MONTH-END PROCESSING

VIII. 1. Bank Reconciliation

Bank reconciliation is a process that helps to validate the overall reliability of accounting records maintained by the local government.

During each accounting period (month) the bank should supply the local government with a statement of all activity against its bank account during the previous month as well as the government's corresponding cheques. The balance reported by the bank as of the end of the accounting period would be the same as that reflected in the government's own accounting records/ledgers if there were no outstanding transactions, errors or unanticipated transactions affecting either the bank's or the government's record of cash.

The reality is the two sets of records are rarely in agreement because of:

- *Deposits in Transit* - deposits made at the end of the month recorded in the government's cash ledger but not recorded by the bank until the following month.
- *Outstanding Cheques* - cheques which are recorded by the government when written but not recorded or cleared by the bank until the following month.
- *Bank Charges* - Charges recorded by the bank against the government's balance. These include charges for insufficient funds, printing of new cheques, safe-deposit box rentals and other bank services.
- *Bank Credits* - Collections or deposits by the bank for the benefit of the local government that are unknown to the government until receipt of the bank statement. Examples would include interest earned on interest-bearing accounts and note collections.
- *Errors* - Errors on the part of either the bank or the local government that cause discrepancies in their respective balances.

VIII. 2. Unadjusted Trial Balance

Unadjusted trial balance is a list of all accounts and their balances distributed between debits and credits. The totals of debits and credits should balance (i.e., equal each other).

Government of _____ Unadjusted Trial Balance, at 31 March 2002

	<u>Debit Balances</u>	<u>Credit Balances</u>
Assets:		
Cash:		
Bank:		
Acct. 1	14,231.25	
Acct. 2	42,693.75	
Petty Cash	4,275.00	
Accounts Receivable (not incl. taxes receivable)	9,990.00	
Inventories exclusively for resale	0	
Loans Receivable (if applicable)	0	
Liabilities:		
Accounts Payable		67,500.00
Suppliers		
Salaries & Benefits Payable		
Notes Payable		
Credit Line - Bank of Nova Scotia		20,250.00
Unearned Revenue		
Taxes pertaining to 2003		26,100.00
Long-Term Debt		
Loan - African Development Bank		58,500.00
Accumulated Surplus		(113,945.00)
Revenues:		
Taxes		
Property		53,890.00
Other Taxes		28,804.00
Charges for Services		
Licenses and Permits		6,750.00
Market Fees		0.00
Sports Facility Fees		0.00
Inter-Governmental		
Transfers from Prefecture		115,000.00
Transfers from Central Government		
Grants from Donor Agencies		51,111.00
Sales of Products		
Miscellaneous		
Interest Earnings		
Gains (Losses) on Sales		
Expenditures:		
Compensation (Salaries & Benefits)	157,800.50	
Contractors and Consultants	48,554.00	
Rent	6,750.00	
Office Supplies	2,080.50	
Utilities (Electricity, Telephone, Water)	2,800.00	
Postage	800.00	
Insurance	1,125.00	
Printing and Reproduction		
Travel and Subsistence	3,690.00	
Maintenance	7,875.00	
Bank Fees	405.00	
Equipment	5,490.00	
Property Purchases		
Cost of Goods Sold		
Transportation & Fuel	5,400.00	
Totals	313,960.00	313,960.00

VIII. 3. Adjustments

Prior to producing the financial reports, some adjustments will probably be required to bring the records up to date. The main category of adjustments relevant to Rwandan local governments consists of Accrued Liabilities and Expenditures, i.e., regular expenditures incurred but not yet paid.

As a typical example, Accrued Compensation/Salaries Payable (a sub-account of Accounts Payable) will have to be calculated based on the percentage of the unpaid payroll period that will have passed by the end of the month. Thus, instead of waiting for the end of the payroll period to reflect a liability, the liability is prorated at the end of the accounting period to produce an accurate figure at that point in time.

These accrued costs are then reflected as entries against the corresponding accounts to bring the ledgers up to date, as follows:

GOVERNMENT OF _____

Page: _____

JOURNAL / Original Books of Entry

Date	Ledger Ref.	Entry Type		Entries and Description	Posting (FRW)	
					Debit	Credit
31-mar-02	G109450	Object	Dr	Exp: Compensation	15,802.50	
	G109450	Object	Cr	Liab: Wages Payable		15,802.50
				(Accrual for wages payable)		

The corresponding Program/Fund Type entries would be made based on the specific government programs, fund type involved.

VIII. 4. Produce Revenues & Expenditure Reports

A Revenue and Expenditure report can be produced following the recording of all applicable adjustments to the journals/ledgers. It would include only items pertaining to nominal accounts in the chart of accounts, and in summarized form.

VIII. 5. Closing

The closing process starts with the current version of the trial balance. All nominal accounts are "closed out" to zero by transferring their balances to the accumulated surplus (net worth) section of the balance sheet.

Specifically, all expenditures for the accounting period (typically debit balances) are transferred to accumulated surplus, effectively reducing the net worth by their combined value. Similarly, all income (represented typically by credit balances)

is transferred to accumulated surplus, acting to increasing the net worth by its total value.

After completing the transfers, the balances of the expenditure and income accounts become zeroes. Only during the next accounting period (month) will entries be posted to the accounts again.

Closing Entries Example

By Object Entries:

Dr	Accumulated Surplus	25,000.00
Dr	Revenues: Province	35,000.00
Cr	Exp: Transportation	4,000.00
Cr	Exp: Compensation	40,000.00
Cr	Exp: Insurance	5,000.00
Cr	Exp: Equipment	11,000.00

By Fund/Function Entries:

Dr	Past Expenditures	60,000.00
Cr	Prg: Health	15,000.00
Cr	Prg: Public Works	13,000.00
Cr	Prg: Education	20,000.00
Cr	Prg: Admin	12,000.00

VIII. 6. Post-Closing Trial Balance

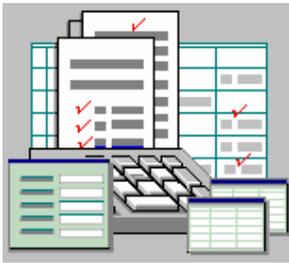
The Post-Closing Trial Balance is the last trial balance prepared and includes the status of accounts after closing out the nominal accounts. Thus, all nominal account balances are reflected at this stage as zero and only real accounts have values. These are the balances that are carried into the next accounting period.

VIII. 7. Produce Statement of Financial Position

Once the Post-Closing Trial Balance is prepared, the final Statement of Financial Position (Balance Sheet) can be prepared, drawing on applicable real account balances, in summarized form.

VIII. 8. Distribute Financial Statements

The financial statements should be distributed widely to promote transparency and solicit feedback from interested parties. Thus, it should be distributed to all members of the District Council and made available to all members of the community (either published in newspapers or posted in front of all local government buildings).



IX. MAJOR FINANCIAL STATEMENTS

Financial statements must be prepared each month (by the end of the sixth working day) and delivered to the District Council and Executive Secretary at that time. Timeliness will take precedence over accuracy, i.e., as important as accuracy is to the accounting process, it will be more important that the reports be delivered in a timely manner than that they be perfectly accurate; selected adjustments can be made in subsequent months.

For simplicity and to ensure that the financial statements can be easily understood, each financial statement should be limited to one single page, even if written by hand. For larger district offices involving various types of accounts, this could require that accounts be consolidated, from sub-accounts to main account headings that appear in the financial statements.

Accountants will be required to prepare the following reports on a monthly basis:

- Accountant's Memorandum to the District Council
- Statement of Financial Position / Balance Sheet
- Statement of Financial Performance / Revenues and Expenditures by object.
- Statement of Financial Performance / Revenues and Expenditures by program.
- Statement of Financial Performance / Revenues and Expenditures by fund type.
- Statement of Changes in Financial Position / Cash Flows
- Statement of Appropriations, Encumbrances and Expenditures (Year-to-Date)
- Statement of Anticipated and Actual Revenues (Year-to-Date)
- Bank Reconciliation Statements (one per bank account maintained)
- Report on Monthly Financial Management Indicators

These reports will be presented in accordance with standard formats to facilitate comparability over time and across local governments.

IX. 1. Statement of Financial Position (Balance Sheet)

The Balance Sheet provides a snapshot or image of the financial condition of the local government at a particular date.

Government of _____

Statement of Financial Position / Balance Sheet

	last day of month at _____	year 20____			
	(Modified Accrual Basis)	Current	Prior		
		March	February	January	
Assets					
Cash					
Bank Cash		56 925	55 897	52 483	
Petty Cash		4 275	4 198	7 538	
Accounts Receivable (not incl. taxes receivable)		9 990	9 810	12 347	
Inventories exclusively for resale					
Loans Receivable (if applicable)					
Total Assets		<u>71 190</u>	<u>69 905</u>	<u>72 368</u>	
Liabilities					
Compensation Payable		0	0	0	
Accounts Payable		67 500	72 004	62 805	
Notes Payable		20 250	21 601	24 841	
Unearned Revenue (collections for future periods)		26 100	27 842	32 018	
Other Long-Term Debt		58 500	62 403	71 763	
Total Liabilities		<u>172 350</u>	<u>183 850</u>	<u>191 427</u>	
Accumulated Surplus or Deficit (Net Worth)		-101 160	-113 945	-119 059	
Total Liabilities & Accum. Surplus / Deficit		<u>71 190</u>	<u>69 905</u>	<u>72 368</u>	
* Encumbrances (Commitments) - prospective new liabilities		21 870	24 634	25 740	

The Balance Sheet is broken down into three sections, with Assets dominating one side of the sheet, and Liabilities & Accumulated Surplus covering the other side and precisely offsetting the Assets.

Assets represent resources that the local government controls and can employ for the benefit of the community. Under the Modified Accrual Basis, which we employ, assets include Cash, Accounts Receivable from staff and regular suppliers, and Inventories for Re-sale. Liabilities, however, represent all debts of the local government. These may include accounts payable (owed to vendors/suppliers), wages payable (salaries and benefits owed to staff), notes payable (owed to banks), and long-term debt (e.g., employment taxes owed to the central government). The Accumulated Surplus is an accounting assessment of the net worth or net value of the local government and is determined by subtracting all debts from the assets. If the accumulated surplus is negative, this means that the local government is relatively insolvent.

IX. 2. Statement of Financial Performance (Revenues and Expenditures),

1) Expenditures by Nature, Object, Line Item

This set of statements provides a summarized comparison of how much the local government produced in revenues to the expenditures in the same period. The statement of financial performance is therefore an indication of how the financial condition of the district government has improved or deteriorated since the last accounting period.

**Government of _____
Statement of Financial Performance / Revenues and Expenditures**

By Nature, Object, Economic Classification, Item
(Modified Accrual Basis)

	March	February	January
Revenue			
Taxation			
Property Taxes	53,890	53,351	51,750
Other Taxes	28,804	28,516	27,661
Charges for Services			
Licenses & Permits	6,750	6,683	6,483
Market Fees		785	
Sports Facility Fees			
Inter-governmental			
Transfers from Prefecture	115,000	113,800	110,386
Transfers from Central Govt.			
Grants from Donor Agencies	51,111	50,822	49,297
Sales of Products			
Gains (Losses) on Sales			
Miscellaneous			
Interest earnings			
Total Revenues	255,555	253,957	245,577
Expenditures			
Compensation (Salaries & Benefits)	157,801	168,957	172,733
Contractors and Consultants	48,554	47,536	49,913
Rent	6,750	6,750	7,088
Office Supplies	2,081	2,122	2,228
Utilities (Electricity, Telephone, Water)	2,800	3,545	3,722
Postage	800	700	735
Insurance	1,125	1,125	1,181
Printing and Reproduction		600	630
Travel and Subsistence	3,690	3,250	3,413
Maintenance	7,875	8,033	8,435
Bank Fees	405	405	425
Equipment	5,490	945	992
Property Purchases			
Cost of Goods Sold			
Transportation & Fuel	5,400	4,875	4,672
Total Expenditures	242,770	248,843	256,167
Surplus (Deficit) of Revenues over Expenditures	12,785	5,114	(10,590)
Accumulated Surplus/ Deficit - Prior Period	(113,945)	(119,059)	(108,469)
Accum. Surplus (Deficit), End - Curr. Period	(101,160)	(113,945)	(119,059)
* Current Encumbrances (Commitments)	21,870	15,897	25,786
* Accum. Surplus minus Encumbrances	(123,030)	(129,842)	(144,845)

If the revenues exceed the expenditures in the same period, this produces a Surplus that is also reflected in an increase in the Accumulated Surplus in the Statement of Financial Position. Conversely, if expenditures exceed the revenues, this represents a Deficit for the period, which decreases the Accumulated Surplus at the end of the month.

Two versions of the Statement of Performance will be provided to members of the District Council: the first version reports expenditures by Nature (Object, Economic Classification), for example, furniture, fuel, utilities, rent, salaries and benefits. The second version classifies expenditures by Program or Sector, e.g., Health and Gender, Socio-Cultural, Administration. When development funds are made available to the local governments, the reporting will also differentiate between recurrent and development funds.

2) Expenditures by Program (Sector)

Government of _____ Statement of Financial Performance / Revenues and Expenditures

Expenditures By Program (Sector) (Modified Accrual Basis)		March	February	January
Revenue				
Taxation				
	Property Taxes	53 890	53 351	51 750
	Other Taxes	28 804	28 516	27 661
Charges for Services				
	Licenses & Permits	6 750	6 683	6 483
	Market Fees		785	
	Sports Facility Fees			
Inter-governmental				
	Transfers from Prefecture	115 000	113 800	110 386
	Transfers from Central Govt.			
Grants from Donor Agencies		51 111	50 822	49 297
Sales of Products				
Miscellaneous				
	Interest earnings			
	Gains or Losses on Sales			
Total Revenues		255 555	253 957	245 577
Expenditures				
	Administration and Political Affairs	48 554	49 769	51 233
	Services and Economic Infrastructure	12 139	12 442	12 808
	Agriculture and Environment	7 283	7 465	7 685
	Health, Gender and Social Affairs	50 982	52 257	53 795
	Socio-Cultural Development	109 247	111 979	115 275
	Planning and Finance	14 566	14 931	15 370
	Totals	242 770	248 843	256 167
Surplus (Deficit) of Revenues over Expenditures		<u>12 785</u>	<u>5 114</u>	<u>-10 590</u>
Accumulated Surplus / Deficit - Prior Period		-113 945	-119 059	-108 469
Accum. Surplus (Deficit), End - Curr. Period		-101 160	-113 945	-119 059
* Current Encumbrances (Commitments)		21 870	15 897	25 786
* Accum. Surplus minus Encumbrances		-123 030	-129 842	-144 845

3) By Fund Type

Government of _____
Statement of Financial Performance / Revenues and Expenditures

Programs vs. Fund Type

March 2002
 (Modified Accrual Basis)

	Recurrent	Development
Revenue		
Taxation		
Property Taxes	43 112	10 778
Other Taxes	23 043	5 761
Charges for Services		
Licenses & Permits	5 400	1 350
Market Fees		
Sports Facility Fees		
Inter-governmental		
Transfers from Prefecture	92 000	23 000
Transfers from Central Govt.		
Grants from Donor Agencies	15 333	35 778
Sales of Products		
Miscellaneous		
Interest earnings		
Gains or Losses on Sales		
Total Revenues	178 889	76 667
Expenditures		
Administration and Political Affairs	48 554	0
Services and Economic Infrastructure	6 069	6 069
Agriculture and Environment	3 642	3 642
Health, Gender and Social Affairs	30 589	20 393
Socio-Cultural Development	61 906	47 340
Planning and Finance	13 110	1 457
Totals	163 870	78 900
Surplus (Deficit) of Revenues over Expenditures	<u>15 019</u>	<u>-2 234</u>
Accumulated Surplus / Deficit - Prior Period	-90 889	-23 056
Accum. Surplus (Deficit), End - Curr. Period	-75 870	-25 290
* Current Encumbrances (Commitments)	16 403	5 468
* Accum. Surplus minus Encumbrances	-92 273	-30 758

IX. 3. Statement of Changes in Financial Position (Cash Flows)

The Statement of Changes in Financial Position (also referred to as the Statement of Cash Flows) describes how the local government manages its liquidity. The flow of cash is decomposed into three main sections: (a) cash flow that results from normal cash operations; (b) cash flow resulting from investments; and (c) cash flow resulting from financing (borrowing) activities. Cash flow resulting from normal cash operations is derived from the surplus (revenues minus expenditures) of the period plus some adjustments for changes/variations in accounts payable balances (withholding payments keeps the cash balance higher than it would be if the expenditures were paid). In contrast, cash flow from investing activities results if the local government either makes an investment (during which the cash flow would be negative) or receives income from an investment (during which the cash flow would be positive). Finally, cash flow resulting from financing activities is calculated based on changes in the amounts owed financing entities such as banks.

If the local government's expenditures for the period are higher than the revenues, it must somehow finance this gap. It might choose to simply delay its payments to conserve cash. Or it may borrow money from the bank. If the government owns property that it rents to customers, it could make use of the rent income. Conversely, if the government has accumulated resources in the past, it may choose to invest in a business that generates income for the district. The statement of Cash Flows is also supported by bank reconciliation and bank statements.

Government of _____ Statement of Changes in Financial Position / Cash Flows

	March	February
(Indirect Method) (Modified Accrual Basis)		
Cash Flow from Operating Activities		
Surplus (Deficit) of Revenues over Expenditures	12,785	5,114
Adjustments to Surplus (Deficit):		
Add Increase (Decrease) in Compensation Payable		
Add Increase (Decrease) in Accounts Payable	(4,504)	9,199
Add Increase (Decrease) in Unearned Revenue	(1,742)	(4,176)
Subtract Increase (Decrease) in Inv. for resale	0	0
Subtract Rent Income Received	0	0
Net Cash Flow from Operating Activities	6,539	10,137
Cash Flow from Investing Activities		
Add: Rent Received from Properties Owned	0	0
Subtract: Increase (Decrease) in Accounts Receivable	(180)	2,537
Net Cash Flow from Investing Activities	(180)	2,537
Cash Flow from Financing Activities		
Add: Increase in (Retirement of) Notes Payable	(1,351)	(3,240)
Add: Increase in Long-Term Debt	(3,903)	(9,360)
Net Cash Flow from Financing Activities	(5,254)	(12,600)
Net Increase (Decrease) in Cash Balance	1,105	74
Cash Balance at Beginning of Period	60,095	60,021
Cash Balance at End of Period	61,200	60,095

IX. 4. Statement of Appropriations, Commitments/Encumbrances and Expenditures

The Statement of Appropriations, Commitments/Encumbrances and Expenditures is a monitoring tool that reflects the status of the execution of the budget. It requires that the accountant not only track the expenditures accrued but also encumbrances (reflected as commitments) so as to provide a clearer idea of expenditures that will likely result from actions taken to date. For each government function in the budget established by the District Council, the appropriations (original and revised, if applicable) are compared to the corresponding expenditures and encumbrances to date. Since the budget is for one year, the statement identifies the portion of the budget that would have transpired by the end of the accounting period reported upon.

- The first column represents the appropriations made by the District Council at the beginning of the year;
- The second column represents appropriations following any revisions;
- The third column represents that portion of the budget which was expected to have been consumed from the beginning of the year through the month that just ended;
- The fourth column represents actual expenditures that were incurred to date;
- The sixth column represents encumbrances outstanding as of the end of the month;
- The seventh column represents the balance in the annual budgets, after deducting for expenditures and encumbrances;
- The last column represents the ratio of actual expenditures and encumbrances (for the year to date) to that which we would have expected to have consumed (the figure in column 3).

Government of _____ Statement of Appropriations, Commitments and Expenditures

By Program/Sector

Revenues to Date	755 089
Commitments & Expenditures to date	772 450
% of Revenues	102%

(Modified Accrual Basis)

	Original Appropriation	Revised Appropriation (A)	<u>Expenditures and Commitments Expected by this month, (B)</u>	Expenditures to date (C)	Outstanding Commitments/ Encumbrances (D)	Unencumbered Balance (A-C-D)	Expenditures and Commitments (C + D) as % of Estimated (B)
Admin. & Political Affairs	660 000	660 000	165 000	149 556	5 444	505 000	94%
Services & Econ. Infrastruct.	272 000	272 000	68 000	37 389	2 611	232 000	59%
Agriculture & Environment	72 000	72 000	18 000	22 433	17	49 550	125%
Health, Gender and Social Affairs	740 000	740 000	185 000	157 034	7 966	575 000	89%
Socio-Cultural Development	640 000	750 000	187 500	336 501	3 499	410 000	181%
Planning & Finance	172 000	164 000	41 000	44 867	5 133	114 000	122%
Totals	2 556 000	2 658 000	664 500	747 780	24 670	1 885 550	116%

IX. 5. Statement of Actual and Anticipated Revenues

Similarly, there will be a requirement to produce a comparison of revenues to the original estimates. The Statement of Actual and Anticipated Revenues is broken down by source of revenue and compares revenues actually received against the original estimates, both for the accounting period just ended and for the year to date.

Government of _____ Statement of Actual vs Anticipated Revenues

By Revenue Source

(Modified Accrual Basis)

	Estimated for Month	Actual for Month	Monthly Variance Favorable (Unfavorable)	Estimated Year- to-Date	Actual for Year- to-Date	Year-to-Date Variance Favorable (Unfavorable)	Year-to-Date Actual / Estimated
Revenue							
Taxation							
Property Taxes	67 000	53 890	-13 110	201 000	158 991	-42 009	79%
Other Taxes	38 000	28 804	-9 196	114 000	84 981	-29 019	75%
Charges for Services							
Licenses & Permits	6 600	6 750	150	19 800	19 916	116	101%
Market Fees			0		785	785	
Sports Facility Fees							
Inter-governmental							
Transfers from Prefecture	135 000	115 000	-20 000	405 000	339 186	-65 814	84%
Transfers from Central Govt.							
Grants from Donor Agencies	50 000	51 111	1 111	150 000	151 230	1 230	101%
Sales of Products							
Miscellaneous							
Interest earnings							
Gains or Losses on Sales							
Total Revenues	296 600	255 555	-41 045	889 800	755 089	-134 711	85%

IX. 6. Bank Reconciliation Statements (one per account)

Bank Reconciliation Statements are prepared to validate the cash balances that are expressed in the balance sheet and provide support for all off-setting accounts, such as expenditures. Since cash is central to financial activities, it is important to verify that cash information is accurate. This is performed by comparing cash transactions reflected in the local government's accounting records for each bank account with statements provided by the bank. To perform the Bank Reconciliation Statement, the bank statement and accounting records are both compared to a correct or "true" account balance derived from the collective information known to both the bank and the accountant.

Government of _____
Bank Reconciliation Statement, at 31 March 2002

	FRW	FRW
Balance per bank statement (end of period)		45,522
Add: Deposits in transit		
Cheque No 25224	1,500	
Cheque No 3829	12,389	
		<u>13,889</u>
Deduct: Outstanding cheques / endorsements		
Cheque No 1225	8,065	
Cheque No 1228	5,971	
Cheque No 1233	3,348	
Cheque No 1235	<u>6,000</u>	<u>23,384</u>
Add/Subtract Bank Errors		
Incorrect cheque charged to acct. by bank	<u>675</u>	<u>675</u>
Correct Cash Balance		<u>36,702</u>
Balance per Books		<u>32,848</u>
Add Bank Credits		
Interest collected by bank	4,521	
		<u>4,521</u>
Subtract Bank Charges		
Service charges reflected on bank statement	450	
NSF cheque returned	<u>675</u>	
		<u>1,125</u>
Add/Subtract Errors in Ledgers/Books:		
Error in recording cheque 1239	458	
		<u>458</u>
Correct Cash Balance		<u>36,702</u>

IX. 7. Disclosures

(Notes to the Financial Statements, including Description of Accounting Policies)

Disclosures and Supplementary Reporting includes information additional to the financial statements that provide a clearer picture of the economic condition of the local government. This information would include information on such items as Encumbrances/ Commitments and Fixed Assets, which do not appear on the financial statements.

GOVERNMENT OF _____
Liabilities Register

At Quarter Ending _____

Support for Account - Liab: _____

Debt Description & Comments	Date Incurred	Creditor	Original & Current Values			Days Outstanding	Days x Curr. Balance	Date Settled
			Original Value	Change	Current Balance			

GOVERNMENT OF _____
Register of Encumbrances (Commitments)

At Quarter Ending _____

Support for Account - Memo:Commitments

Encumbrance Description & Comments	Encumbrance Date (if applic.)	Econ. Classification/ Object / Nature	Program / Sector	Prospective Creditor (if applic.)	Estimated Value	Date Realized or Cleared

GOVERNMENT OF _____
Fixed Assets Register

At Quarter Ending _____

Page: _____

Support for Account - Memo:Fixed Assets: _____ : _____ : _____

Item #	Item Description & Comments	Date Acquired	Vendor / Model	Serial #	Custodian Dept. & Employee	Original & Current Values		Date Sold / Retired
						Original Value	Current Value	

IX. 8. Monthly Financial Management Indicators

In order to succinctly report on the financial health of the district, several indicators have been developed and shall be included in the financial reports on a monthly basis. Most of these indicators are derived from data already included in the financial reports but are simply expressed in a different format or manner.

Government of _____ Monthly FM Indicators, 31 March 2002

(Six - Month "Rolling" Report)

Indicator	Mar 2002	Feb. 2002	Jan 2002	Dec. 2001	Nov. 2001	Oct. 2001
1. Revenues/Expenditures (a percentage higher than 100% means that revenues exceed expenditures)	105%	102%	96%	95%	94%	93%
2. Assets / (Liabilities + Encumbrances) (a percentage lower than 100% means that accumulated surplus is negative)	36,1%	33,5%	33,3%	32,6%	32,0%	31,3%
3. Anticipated Budget (Jan to Date) / Expenditures + Encumbrances (Jan to Date) (a percentage lower than 100% means that expenditures & encumbrances exceed the allocated budget for the year-to-date, i.e., January to present)	86,0%	85,2%	84,3%	83,5%	82,6%	81,8%
4. Collected Receipts / Anticipated Receipts (a percentage higher than 100% means that actual receipts collected exceeded budgeted revenues)	86,2%	82,1%	84,5%	85,3%	83,6%	82,8%
5. Average number of calendar days bills are outstanding (represents the arithmetic average of calendar days outstanding for all pending liabilities)	55	62	64	62	63	68
6. # Days after 6th working day that FM reports were released (the number of working days that had passed after the 6th working day of the new month when the current report is released to District Council, Prefecture and central government)	0	0	2	3	4	0

IX. 9. Accounting Memorandum to District Council

The accounting Memorandum to the District Council includes key observations on the financial status of the local government. It reflects accounts analysis of critical financial factors and highlights issues that deserve special attention from the council and management.

X. INTERNAL CONTROLS

X. 1. Overview of Internal Control Model

In the broadest context, Internal Controls help ensure that systems and resources are in place to help the local government meet its primary objectives. Thus, Internal Controls surround all financial management components. They include elements as diverse as systems, policies, procedures, staff skills, ethics, monitoring and evaluation, communications and information flows between offices.

X. 2. Preventive (*Ex Ante*) vs. Detective (*Ex Post*) Controls

Preventive controls represent controls that are exercised before a business event happens. For example, an invoice might be checked against a related purchase order issued by the local government *before* related payment is made. In contrast, detective controls are applied *after* the related business events happen. For example, cash reconciliation would help to detect and identify payments that occurred that have not already been recorded in the corresponding journals/records (including unauthorized payments).

As a general rule, preventive controls are considered superior to detective controls but under certain circumstances, detective controls are either more practical or cost-effective. The mix of preventive/detective controls is determined by the relative risks to be controlled vs. the costs of implementing the controls.

X. 3. Authorities and Approvals

The establishment of clear authorities is a typical method of internal control. In this context, approvals are given to proceed with specific business events (e.g., a contract for road improvement). It should be noted that for approvals to be effective, they should control meaningful events; for example, an approval of a receipt after expenditure has already been made does not add any real control. Similarly, approvals should be undiluted and with clear accountabilities; thus, approval sheets calling for signatures from more than three signatures undermine the ability to hold individual approvers accountable for their mistakes and actually increase the likelihood of mistakes by providing a false sense of security to the last few approvers on the document, who may then avoid scrutinizing the document.

X. 4. Segregation of Functions

Segregation of Functions (also referred to as Separation of Duties) refers to keeping functions considered incompatible from being handled by the same people or roles. For example, if an accountant had the ability to execute transactions (a Treasury role), he could misappropriate funds and then manipulate the accounting to hide this fact and thereby avoid detection. To prevent such events, certain functions are segregated across separate functions/individuals.

X. 5. Quality Assurance - may be performed by accounting colleague but not internal auditor

Internal auditors should not be involved, to any extent, in the approval of transactions. However, accounting colleagues under the same management could be asked to review / clear transactions prior to execution.

X. 6. Access Controls

Controls over the access to assets (e.g., chequing accounts and petty cash) need to be instituted and to information (accounting) that records related activity.

X. 7. Reconciliation of cash and other accounts

Reconciliation of accounts is a detective control that helps support the confidence in the reliability of reporting. Reconciliation activities should be performed on at least a monthly basis.

X. 8. Filing of financial reports, journals, ledgers.

The filing of financial and supporting ledgers and journals provides support for the accounting assessments performed and the approach employed in valuing transactions. It also reflect period controls, i.e., how balances are transferred to one period to another.

X. 9. Source document filings, by voucher.

Source documents (e.g., invoices, payment approvals, receipts, bank statements) provide support for the financial statements. All items in the financial statements should be traceable to specific source documents and vice-versa.

B. ANNEXES

XI. ANNEX 1 – CHART OF ACCOUNTS

Chart of Accounts

Reporting Category /	Account: Sub-account....	Comments	Date Opened	Date Closed
Financial Propriety Accounts				
Accounts by Nature/Object				
Real Accounts				
Assets:				
	Cash:			
	Bank:			
	Petty Cash:			
	Cheques on Hand			
	Accounts Receivable (A/R):			
	Inventories for Resale:			
	Loans Receivable:			
	Loans to Suppliers			
	Loans to Staff			
	Advances on the salaries			
Liabilities				
	Compensation Payable			
	Wages Payable			
	Benefits Payable			
	Accounts Payable:			
	Notes Payable			
	Unearned Revenue (for future periods)			
	Long-Term Debt			
Accumulated Surplus or Deficit (Net Worth)				
Nominal Accounts				
Revenues				
	Taxation:			
	Property Taxes (on fixed assets)			
	Rental Tax			
	Bycycle Tax			
	Other Taxes			
	Charges for Services:			
	Licenses & Permits			
	Market Fees			
	Fee for use of public assets (land, infrastructure, etc)			
	Occasional Fees			
	Special Fees			
	Fines and penalties			
	Inter-administrative Transfers			
	Province			
	Central Government			
	Grants from Donor Agencies			
	Sales of Products			
	Gains (Losses) from Sale of Assets			
	Miscellaneous:			

Chart of Accounts

Reporting Category /	Account: Sub-account....	Comments	Date Opened	Date Closed
Nominal Accounts				
Expenditures				
	Compensation:			
	Salaries of permanent staff			
	Salaries of temporary staff			
	Benefits			
	Honoraria to district council members			
	Bonus			
	Contractors and Consultants			
	Supplies			
	Office supply			
	School material			
	Sports material			
	Agricultural			
	Building material			
	Medical supply			
	Utilities and Public Services Received:			
	Electricity			
	Telephone			
	Water			
	Sanitation			
	Purchase of Fixed Assets			
	Building and structures			
	Land			
	Furniture			
	Equipment			
	Rent			
	Insurance			
	Social welfare			
	Maintenance and repairs			
	Bank charges			
	Representation fees			
	Travel and Subsistence			
	Reception and festivities			
	Radio announcements and			
	Postage			
	Printing and Reproduction			
	Security/information			
	Training			
	Cost of Goods Sold			
	Transportation & Fuel			
	Extraordinary Items:			
	Floods			
	Emergency Relief Operations			
	Transfers to local public institutions			
	Grants and subsidies to third parties			
	Miscellaneous			

Chart of Accounts

Reporting Category /	Account: Sub-account....	Comments	Date Opened	Date Closed
Accounts by Program/Fund				
	Unallocated Income	Contra-account for Fund Type		
	Fund Type			
	Recurrent			
	Development			
	Special			
	Program (Prg):			
	Administration & Political Affairs			
	Services & Economic Infrastructure			
	Agriculture and Environment			
	Health, Gender and Social Affairs			
	Socio-Cultural Development			
	Planning and Finance			
	Prior-Period Expenditures	Closing account		
Memorandum Accounts				
	Estimated Revenues	Contra to appropriations		
	Appropriations:			
	Administration & Political Affairs			
	Services & Economic Infrastructure			
	Agriculture and Environment			
	Health, Gender and Social Affairs			
	Socio-Cultural Development			
	Planning and Finance			
	Commitments:			
	Administration & Political Affairs			
	Services & Economic Infrastructure			
	Agriculture and Environment			
	Health, Gender and Social Affairs			
	Socio-Cultural Development			
	Planning and Finance			
	Reserve for Commitment	Contra account for commitments		
	Fixed Assets:	Maintains register of fixed assets		
	Building and structures			
	Real Estate (Land)			
	Furniture			
	Equipment			
	Contra-fixed assets			
	Taxes Receivable			
	Stores			

XII. ANNEX 2 - GLOSSARY OF ENGLISH AND FRENCH ACCOUNTING TERMS

GLOSSARY

English	French
Account of Cash	Compte de liquidités
Accounting Entries	Ecritures comptables
Accounting Journal	Journal comptable
Accounting Standards	Normes comptables
Accounts Payable	Créances à payer/ Comptes fournisseurs
Accounts Receivable	Créances à recouvrer/ Comptes des clients
Accounts receivable from vendors	Effets à recevoir des fournisseurs
Accounts with economic classifications by object or nature	comptabilité à classification économique
Accrued liabilities	Dettes à payer
Accumulated Surplus	Excédent cumulé
Assets	Actif
Authorities and Approvals	Responsabilités et autorisations
Balances	Soldes
Bank Charges	Charges/ commissions bancaires
Bank Credits	Crédits bancaires
Bank Reconciliation	Rapprochement bancaire
Bank Statement	Relevé de compte
Book of original entry	Livre des écritures primaires
Budget Appropriations	Allocations budgétaires
Budget Item	Article du budget
Business Events	Activités financières
Cash in Bank Account	Liquidités dans le compte bancaire
Cash register	Livre de caisse
Charges for Services	Taxes rémunératoires des services
Chart of Accounts	Plan comptable
Check stubs	Souches des cheques
Clear a check or an account	Compenser un chèque/ liquider un compte
Closing	Clôture
Compensation/salary expenditures	Dépenses de rémunérations /salaires
Credit balances	Soldes créditeurs
Debit balances	Soldes débiteurs
Deposits in Transit	Dépôts en transit
Detective Controls	Contrôle détection
Development Funds	Fonds de développement
Disclosures	Informations à communiquer dans les états financiers
Double-Entry System	Système comptable en partie double
Encumbrances / Commitments	Engagements
Expenses	Charges
Fees	Frais
File financial records	Classer les documents financiers
Financial Statements	Etats financiers
Fixed assets	Actifs immobilisés
Fuel	Carburant
Gains	Gains
Income Statement Accounts	Compte de situation des recettes
Insufficient funds	Insuffisance de fonds
Integrated Financial Management System	Système de gestion financière intégrée
Interest Earnings	Intérêt reçu

USAID/ARD Draft Accounting Manual for Local Governments

International Accounting Standards (IAS)	Normes Internationales de Comptabilité (NIC),
International Accounting Standards Committee (IASC)	Comité International des Normes Comptable (CINC)
International Federation of Accountants (IFAC)	Fédération Internationale de Comptables (FIC)
International Public Sector Accounting Standards (IPSAS)	Normes Comptables Internationales pour le Secteur Public (NCISP)
Inventory of Items for Resale	Inventaire des articles à revendre
Ledgers	Registres/ livres comptables
Liabilities	Passif
Liabilities ²	Dépenses /dettes
Loans payable (to banks)	Emprunts à rembourser (aux banques)
Long-term debt	Dettes à long terme
Losses	Pertes
Market fee	Taxe de marché
Memorandum Accounts	Comptes spécial /hors bilan
Natural Account Classification	Classification économique des comptes
Natural Accounts	Comptes classiques/ économiques
Natural Entries	Enregistrements/ écritures
Net Worth	Valeur nette
Nominal Accounts	Comptes de gestion (nominaux)
Notes Payable	Effets à payer
Office supplies	Fournitures de bureau
Outstanding Checks	Chèques en circulation
Paid in Cash	Payés en espèces
Payroll	List de paie
Petty cash	Petite caisse
Physical assets	Actifs physiques
Post-Closing Trial Balance	Balance des comptes après l'inventaire
Pre-Closing Trial Balance	Balance des comptes avant l'inventaire
Preventive Controls	Contrôle préventif
Property Tax	Impôt sur la propriété (terrains et bâtiments)
Proprietary accounting	
Purchase order	Bon de commande
Real accounts	Comptes de bilan (réels)
Receipts	Quittances
Recurrent Funds	Budget de fonctionnement
Revenues	Recettes
Safe-deposit Box Rentals	Frais de location de coffre-fort
Sale Proceeds	Recettes provenant de la vente
Segregation of Function	Séparations des fonctions
Settling an Accounts Payable by Paying the Bill	Annuler le compte créditeur en payant la facture
Source Documents	Documents justificatifs
Source of Funds	Type de budget
Statement of Actual and Anticipated Earnings	Etat des recettes effectives et des recettes prévues
Statement of Appropriations, Commitments/Encumbrances and Expenditures	Etat des crédits, engagements et dépenses
Statement of Changes in Financial Position (Cash Flows)	Tableau de flux de trésorerie (Cash Flows)
Statement of Financial Performance (Revenues and Expenditures)	Etat de la performance financière (Recettes et Dépenses)

USAID/ARD Draft Accounting Manual for Local Governments

Statement of Financial Position (Balance Sheet)	Etat de la situation financière (Bilan comptable)
Subsidiary ledgers	Registres auxiliaires
Summary ledgers	Registres principaux
Taxes receivable	Impôts à recouvrer
Trial balance	Balance
Unclassified Revenues	Recettes non classifiées
Unearned revenues	Recettes perçues en avance
Vouchering	Système de numérotation des pièces justificatives

XIII. ANNEX 3 - ACCOUNTING RECORDS AND BOOKS

XIV. ANNEXES – FORMS OF FINANCIAL REPORTS

District of
Statement of Financial Position/ Balance Sheet
 (Modified Accrual Basis)

Last day of month ____ 200__

	Current Month	Prior Month	Prior Month
Assets:			
Cash:			
Bank:			
Acct 1			
Acct 2			
Acct 3			
Petty Cash:			
Cheques on Hand			
Accounts Receivable (A/R):			
Inventories for Resale:			
Loans Receivable:			
Loans to Suppliers			
Loans to Staff			
Advances on the salaries			

Total Assets			
---------------------	--	--	--

Liabilities

Rémunérations à payer			
Salaires			
Avantages			
Créances à payer			
Fournisseurs / Clients			
Effets à payer			
Recettes perçues en avance			
Dettes à long terme			
Crédits des Agences Gouvernementales			

Total Liabilities			
--------------------------	--	--	--

Accumulated Surplus (deficit) Net Value			
--	--	--	--

Total Liabilities & Accum. Surplus / Deficit			
---	--	--	--

* Encumbrances (Commitments) - prospective new liabilities			
--	--	--	--

Government of _____
Statement of Financial Performance / Revenues and Expenditures

By Nature, Object, Economic Classification, Item

(Modified Accrual Basis)

Last day of the month

200__

Current Month

Prior Month

Prior Month

Total Revenues			
Total Expenditures			
Surplus (Deficit)			
Accumulated Surplus (deficit), - Prior Period			
Accumulated Surplus (deficit), End - Curr. Period			
* Current Encumbrances (Commitments)			
* Accum. Surplus minus Encumbrances			

Revenues

Taxation:			
Property Taxes (on fixed assets)			
Rental Tax			
Bycycle Tax			
Other Taxes			
Charges for Services:			
Licenses & Permits			
Market Fees			
Fee for use of public assets (land, infrastructure, etc)			
Occasional Fees			
Special Fees			
Fines and penalties			
Inter-administrative Transfers			
Province			
Central Government			
Grants from Donor Agencies			
Sales of Products			
Gains (Losses) from Sale of Assets			
Miscellaneous:			
Total Revenues			

			Page 2
	Current Month	Prior Month	Prior Month
Expenditures			
Compensation:			
Salaries of permanent staff			
Salaries of temporary staff			
Benefits			
Honoraria to district council members			
Bonus			
Contractors and Consultants			
Supplies			
Office supply			
School material			
Sports material			
Agricultural			
Building material			
Medical supply			
Utilities and Public Services Received:			
Electricity			
Telephone			
Water			
Sanitation			
Purchase of Fixed Assets			
Building and structures			
Land			
Furniture			
Equipment			
Rent			
Insurance			
Social welfare			
Maintenance and repairs			
Bank charges			
Representation fees			
Travel and Subsistence			
Reception and festivities			
Radio announcements and publicity			
Postage			
Printing and Reproduction			
Security/information			
Training			
Cost of Goods Sold			
Transportation & Fuel			
Extraordinary Items:			
Floods			
Emergency Relief Operations			
Transfers to local public institutions			
Grants and subsidies to third parties			
Miscellaneous			

Total Expenditures			
---------------------------	--	--	--

Government of _____
Statement of Financial Performance / Revenues and Expenditures

By Nature, Object, Economic Classification, Item
 (Modified Accrual Basis)

	Last day of the month 200__		
	Current Month	Prior Month	Prior Month
Revenues			
Taxation:			
Property Taxes (on fixed assets)			
Rental Tax			
Bycycle Tax			
Other Taxes			
Charges for Services:			
Licenses & Permits			
Market Fees			
Fee for use of public assets (land, infrastructure, etc)			
Occasional Fees			
Special Fees			
Fines and penalties			
Inter-administrative Transfers			
Province			
Central Government			
Grants from Donor Agencies			
Sales of Products			
Gains (Losses) from Sale of Assets			
Miscellaneous:			
Total Revenues			

Expenditures			
Administration and Political Affairs			
Services and Economic Infrastructure			
Agriculture and Environment			
Health, Gender and Social Affairs			
Socio-Cultural Development			
Planning and Finance			
Total			

Surplus (Deficit)			
Accumulated Surplus (deficit), - Prior Period			

Accumulated Surplus (deficit), End - Curr. Period			
--	--	--	--

* Current Encumbrances (Commitments)			
---	--	--	--

* Accum. Surplus minus Encumbrances			
--	--	--	--

Government of _____
Statement of Financial Performance / Revenues and Expenditures

Programs vs. Fund Type

(Modified Accrual Basis)

Current month

Revenues	Current month	
	Recurrent	Development
Taxation:		
Property Taxes (on fixed assets)		
Rental Tax		
Bycycle Tax		
Other Taxes		
Charges for Services:		
Licenses & Permits		
Market Fees		
Fee for use of public assets (land, infrastructure, etc)		
Occasional Fees		
Special Fees		
Fines and penalties		
Inter-administrative Transfers		
Province		
Central Government		
Grants from Donor Agencies		
Sales of Products		
Gains (Losses) from Sale of Assets		
Miscellaneous:		
Total Revenues		

Expenditures

Administration and Political Affairs		
Services and Economic Infrastructure		
Agriculture and Environment		
Health, Gender and Social Affairs		
Socio-Cultural Development		
Planning and Finance		
Total		

Surplus (Deficit)		
Accumulated Surplus (deficit), - Prior Period		
Accumulated Surplus (deficit), End - Curr. Period		
* Current Encumbrances (Commitments)		
* Accum. Surplus minus Encumbrances		

Government of _____
Statement of Changes in Financial Position / Cash Flows

(Indirect Method)

Last Day of the Month **200__**
 (Modified Accrual Basis)

Cash Flow from Operating Activities	
Surplus (Deficit) of Revenues over Expenditures	
Adjustments to Surplus (Deficit):	
Add Increase (Decrease) in Compensation Payable	
Add Increase (Decrease) in Accounts Payable	
Add Increase (Decrease) in Unearned Revenue	
Subtract Increase (Decrease) in Inv. for resale	
Subtract Rent Income Received	
Net Cash Flow from Operating Activities	
Cash Flow from Investing Activities	
Add: Rent Received from Properties Owned	
Subtract: Increase (Decrease) in Accounts Receivable	
Net Cash Flow from Investing Activities	
Cash Flow from Financing Activities	
Add: Increase in (Retirement of) Notes Payable	
Add: Increase in Long-Term Debt	
Net Cash Flow from Financing Activities	
Net Increase (Decrease) in Cash Balance	
Cash Balance at Beginning of Period	
Cash Balance at End of Period	

Government of _____
Statement of Appropriations, Commitments and Expenditures

By Program/Sector
Last day of the month 200 _____
 (Modified Accrual Basis)

	Original Approp- riation	Revised Approp-riation (A)	<u>Expenditures and Commitments Expected by this month, (B)</u>	Expenditures to date (C)	Outstanding Commitments/ Encumbrances (D)	Unencumbered Balance (A-C-D)	Expenditures and Commitments (C + D) as % of Estimated (B)
Administration and Political Affairs							
Services and Economic Infrastructure							
Agriculture and Environment							
Health, Gender and Social Affairs							
Socio-Cultural Development							
Planning and Finance							
Total							

USAID/ARD Draft Accounting Manual for Local Governments

Government of _____
Statement of Actual vs Anticipated Revenues

By Revenue Source

Last day of the month 200 _____

(Modified Accrual Basis)

	Estimated for Month (A)	Actual for Month (B)	Monthly Variance Favorable (Unfavorable) (B-A)	Estimated Year-to-Date (C)	Actual for Year-to-Date (D)	Year-to-Date Variance Favorable (Unfavorable) (D-C)	Year-to-Date Actual / Estimated (D/C)
Revenues							
Taxation:							
Property Taxes (on fixed assets)							
Rental Tax							
Bicycle Tax							
Other Taxes							
Charges for Services:							
Licenses & Permits							
Market Fees							
Fee for use of public assets (land, infrastructure, etc)							
Occasional Fees							
Special Fees							
Fines and penalties							
Inter-administrative Transfers							
Province							
Central Government							
Grants from Donor Agencies							
Sales of Products							
Gains (Losses) from Sale of Assets							
Miscellaneous:							
Total Revenues							

Government of _____

Monthly FM Indicators

Last day of the month 200_____
 (Six - Month "Rolling" Report)

	Current month	Prior month				
Indicators	200____	200____	200____	200____	200____	200____
1. Revenues/Expenditures						
2. Assets / (Liabilities + Encumbrances)						
3. Anticipated Budget (Jan to Date) / Expenditures + Encumbrances (Jan to Date)						
4. Collected Receipts / Anticipated Receipts						
5. Average number of calender days bills are outstanding						
6. # Days after 6th working day that FM reports were released						

Government of _____
Bank Reconciliation Statement

Last day of the month 200

	FRW	FRW
Balance per bank statement (end of period)		

Add: Deposits in transit

Cheque N°		
Cheque N°		
Cheque N°		

Deduct: Outstanding cheques / endorsements

Cheque N°		

Add/Subtract Bank Errors

Incorrect cheque charged to acct. by bank		

Correct Cash Balance		
-----------------------------	--	--

Balance per Books

Add Bank Credits		
Interest collected by bank		

Subtract Bank Charges

Service charges reflected on bank statement		
NSF cheque returned		

Add/Subtract Errors in Ledgers/Books:

Error in recording cheque 1239		

Correct Cash Balance		
-----------------------------	--	--

